

No. 91-971-CFX
Status: GRANTED

Title: Two Pesos, Inc., Petitioner
v.
Taco Cabana International, Inc., et al.

Docketed:
October 18, 1991

Court: United States Court of Appeals
for the Fifth Circuit

Counsel for petitioner: Corson, Kimball J.

Counsel for respondent: Gambrell, James B., Taranto, Richard G.

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Entry	Date	Note	Proceedings and Orders
1	Oct 18 1991	G	Petition for writ of certiorari filed.
3	Dec 27 1991	X	Brief of respondents Taco Cabana, et al. in opposition filed.
2	Dec 31 1991		DISTRIBUTED. January 17, 1992
5	Jan 21 1992		REDISTRIBUTED. January 24, 1992
6	Jan 27 1992		Petition GRANTED. limited to Question 1 presented by the petition. *****
7	Feb 7 1992		Record filed.
		*	Partial proceedings and briefs U.S. Court of Appeals, Fifth Circuit.
8	Mar 4 1992		SET FOR ARGUMENT TUESDAY, APRIL 21, 1992. (1ST CASE).
9	Mar 9 1992		Record filed.
		*	Original proceedings U.S.D.C., Southern District of Texas (6 Boxes) SEALED RECORD
11	Mar 11 1992		Joint appendix filed.
		*	Joint Appendix received in two volumes
12	Mar 11 1992		Brief of petitioner Two Pesos filed.
10	Mar 12 1992		Brief amicus curiae of Private Label Manufacturers Association filed.
13	Mar 12 1992		Brief amicus curiae of United States Trademark Assn. filed.
14	Mar 17 1992	G	Motion of respondents to expedite consideration of the motion to dismiss the writ as improvidently granted filed.
15	Mar 17 1992	D	Motion of respondents to dismiss the writ as improvidently granted filed.
16	Mar 18 1992		Opposition of Two Pesos, Inc. to motion of respondents to dismiss the writ as improvidently filed.
18	Mar 18 1992		CIRCULATED.
17	Mar 20 1992		Reply brief of respondents Taco Cabana, et al. to petitioners' opposition filed.
19	Mar 30 1992		Motion of respondents to expedite consideration of the motion to dismiss the writ as improvidently granted GRANTED.
20	Mar 30 1992		Motion of respondents to dismiss the writ as improvidently granted DENIED.
22	Apr 9 1992		Letter from respondent received and distributed.

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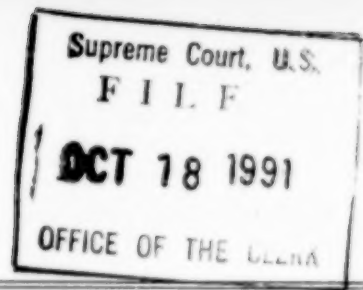
No. 91-971-CFX

Entry	Date	Note	Proceedings and Orders
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21	Apr 10 1992	X	Brief of respondents Taco Cabana, et al. filed.
23	Apr 15 1992		Reply brief of petitioner Two Pesos filed.
24	Apr 21 1992		ARGUED.

91-971

No. 91-



IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,
Petitioner,
vs.
TACO CABANA INTERNATIONAL, INC., and
TACO CABANA, INC.,
Respondents.

**PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT**

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October 18, 1991

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Questions Presented

The District Court held, and the Court of Appeals affirmed, that Two Pesos' Mexican style restaurants infringed on the trade dress of Taco Cabana's Mexican style restaurants, and that this Mexican decor or trade dress is protectable under the Lanham Act to the same extent as a federally registered trademark. The questions presented are as follows:

1. Whether the Mexican style appearance of a Mexican food restaurant constitutes protectable intellectual property equivalent to a federally registered trademark, even where the restaurant did not, and cannot, show that its Mexican "look" has secondary meaning in the eyes of its customers, so that members of the public associate the restaurant's appearance with that particular restaurant.

2. Whether a business may exercise a monopoly over a "trade dress" consisting, virtually *in toto*, of a combination of admittedly functional features on the ground that those functional features are combined in an "arbitrary" fashion.

List of Parties

The caption of the case in this Court contains the names of all parties to the proceeding in the United States Court of Appeals for the Fifth Circuit, whose judgment is sought to be reviewed. There is no parent or subsidiary company of Two Pesos, Inc. to be identified or listed under Rule 29.1 of the Rules of the Supreme Court of the United States.

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Table of Conventions

The following convention is used in this petition:

"T" [date, page] (trial transcript)

IN THE

Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

vs.

TACO CABANA INTERNATIONAL, INC., and
TACO CABANA, INC.,

Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Petitioner, Two Pesos, Inc., asks that a writ of certiorari issue to review the judgment entered by the United States Court of Appeals for the Fifth Circuit, entered June 11, 1991.

Opinions Below

The opinion of the court of appeals is reported at 932 F.2d 1113 and reproduced as Appendix A. The final judgment entered by the United States District Court for the Southern District of Texas was not reported, but is reproduced as Appendix B.

Jurisdiction

The judgment of the United States Court of Appeals for the Fifth Circuit is dated, and was entered, on June 11, 1991. That court denied a timely petition for rehearing and suggestion for rehearing *en banc* by order dated and filed July 22, 1991. This petition is filed within ninety days of that date and, therefore, is timely. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254(1). The United States District Court for the Southern District of Texas had jurisdiction pursuant to 15 U.S.C. § 1121, 28 U.S.C. § 1338, and the doctrine of pendent jurisdiction. The Court of Appeals had jurisdiction pursuant to 28 U.S.C. § 1291 and 15 U.S.C. § 1121.

Constitutional Provisions and Statutes Involved

The United States Constitution, Article 1, § 8 provides in pertinent part:

The Congress shall have power . . .

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

Title 15, section 1125(a), United States Code (1982), Section 43(a) of the Lanham Act, provides as follows:

False designations of origin and false descriptions forbidden

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.¹

Title 15, section 1052, United States Code (1982), provides in pertinent part:

Trademarks registrable on the principal register

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it--

. . . (e) consists of a mark which, (1) when applied to the goods of the applicant is merely descriptive or deceptively misdescriptive of them, or (2) when applied

¹ This section was revised by Pub. L. 100-666, Title I, § 132, 102 Stat. 3946, effective November 16, 1989, which date is after the December 30, 1988 final judgment of the District Court.

to the goods of the applicant is primarily geographically descriptive or deceptively misdescriptive of them, except as indications of regional origin may be registrable under section 4 hereof, or (3) is primarily merely a surname;

(f) except as expressly excluded in paragraphs (a), (b), (c), and (d) of this section, nothing herein shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant's goods in commerce. The Commissioner may accept as prima facie evidence that the mark has become distinctive, as applied to the applicant's goods in commerce, proof of substantially exclusive and continuous use thereof as a mark by the applicant in commerce for the 5 years next preceding the date of the filing of the application for its registration.

Statement of the Case

Petitioner, Two Pesos, Inc. ("Two Pesos"), and respondents, Taco Cabana International, Inc. and Taco Cabana, Inc. (collectively, "Taco Cabana"), are competing chains of fast food Mexican restaurants. As the Court of Appeals recited, "Taco Cabana describes its Mexican fast-food trade dress as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme."

Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1117 (1991). See Appendix A.

In the Court of Appeals' words, Two Pesos' founders opened a fast food Mexican restaurant that "adopted a motif essentially consistent with the above description of Taco Cabana's trade dress." *Id.* Alleging that Two Pesos had improperly copied its trade dress, Taco Cabana brought an action in the United States District Court for the Southern District of Texas under Section 43(a) of the Lanham Act and asserting additional claims arising under state law.

The case was tried to a jury, which found that Taco Cabana's trade dress did *not* have secondary meaning, but was, taken as a whole, nonfunctional and inherently distinctive. The jury found that customers "might" confuse a Taco Cabana restaurant with a Two Pesos restaurant, and that Taco Cabana had been damaged by Two Pesos' infringement. On the trade dress infringement claim, the jury awarded Taco Cabana \$306,000 in lost profits, \$628,300 for lost income and nothing for loss of good will. The jury awarded an additional amount of \$150,000 on Taco Cabana's state law claim for trade secret misappropriation. The district court doubled Taco Cabana's trade dress damages to \$1,868,600 and awarded respondent attorneys' fees of \$937,550. *Taco Cabana Int'l, Inc.*, 932 F.2d at 1117-18.

Two Pesos appealed, asserting that Taco Cabana's trade dress could not have been analyzed properly, as evidenced by the jury's inconsistent findings caused or compounded by incorrect legal instructions.² The jury found that Taco

² The entirety of the district court's instruction on inherent distinctiveness reads as follows:

Question number 3 asks you to determine whether Taco Cabana's trade dress is inherently distinctive. Distinctiveness is a term used to indicate that a trade dress

Cabana's trade dress had not acquired any secondary meaning. Therefore, the trade dress did not serve to associate the appearance of Taco Cabana with that particular chain of restaurants. Yet the jury found that Taco Cabana's trade dress was inherently distinctive and, therefore, protectable. Taco Cabana's own witnesses acknowledged at trial that *the only nonfunctional items* in a Taco Cabana restaurant were *the decor and the plants* (T 9/28, 160; 10/20, 19; plaintiffs' exhibit 231). Yet the jury also found that Taco Cabana's trade dress was nonfunctional when viewed in the aggregate. *Id.*

The Court of Appeals rejected Two Pesos assertions and affirmed the judgment of the district court. With respect to the lack of secondary meaning, the court stated that Two Pesos had "ignore[d] the law in this circuit." The court held that a trade dress may be inherently distinctive in the same manner as an trademark and, if so, need not achieve secondary meaning to be protectable. *Id.* at 4174. With respect to functionality, the court reasoned:

[A] particular arbitrary combination of functional features, the combination of

serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants and it is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive. If it is shown that Taco Cabana's trade dress does not distinguish its products and services from those of other restaurants, then you should find that Taco Cabana's trade dress is not inherently distinctive.

which is not itself functional, properly enjoys protection.

Id. at 1119.

Reasons for Granting the Petition

I. THIS CASE RAISES IMPORTANT QUESTIONS REGARDING THE SCOPE AND DIRECTION OF FEDERAL TRADEMARK AND UNFAIR COMPETITION LAW.

A. The Court of Appeals' Conclusion that a Mexican "Trade Dress" Is Protectable Even Though It Lacks Secondary Meaning Departs from Established Law in the Remaining Circuits and Sets Trademark and Unfair Competition Law Adrift.

The Court of Appeals' decision pulls the ship of trademark and unfair competition law loose from its moorings. It permits a generic, descriptive Mexican decor, consisting primarily of functional features, to be an "inherently distinctive" and, therefore, protectable trade dress such that secondary meaning -- which the jury found lacking -- need not be shown. Secondary meaning is an association in the consumer's mind between the trademark and the source or origin of the product bearing the mark. In the context of restaurant trade dresses, which are not subject to independent review or registration, a finding of inherent distinctiveness creates untenable business uncertainty regarding what is or is not protectable under the Lanham Act, and so will chill legitimate competitive activity. Therefore, this Court should reject the view of the Fifth Circuit and, consistent with the rulings of other courts of appeals, require that a trade dress have acquired secondary meaning to be protectable.

The lack of secondary meaning, which is inconsistent with a finding of inherent distinctiveness, should be fatal to Taco Cabana's trade dress claim in this context. The Second, Third, Sixth, Eighth and Ninth Circuits require that a trade dress have secondary meaning before it will be protectable. *See, e.g., Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 974 (2d Cir. 1987); *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1381 (9th Cir. 1987); *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1141 (3d Cir. 1986); *Profrock Ltd. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986); *Kwik-Site Corp. v. Clear View Mfg. Co.*, 758 F.2d 167, 178 (6th Cir. 1985); *see generally* 1 J. McCarthy, *Trademarks and Unfair Competition* § 8:2, at 385 (2d ed. 1984) ("[i]n cases of alleged confusingly similar use of trade dress and packaging, the traditional rule is that proof of secondary meaning is a condition precedent to obtaining protection against such acts . . .").

In *Chevron Chemical v. Voluntary Purchasing Groups*, 659 F.2d 695, 703 (1981), *cert. den.*, 457 U.S. 1126 (1982), the Fifth Circuit, in reversing a district court order denying relief on a Lanham Act claim, expressly disagreed with the foregoing rule:

Some circuit courts, like the district court, have required secondary meaning. *See, e.g., Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299, 303 (2d Cir. 1981); *Keebler Co. [v. Rovira Biscuit Corp.]*, 624 F.2d 366, 378 (1st Cir. 1980)]. We do not agree, however, that secondary meaning must be shown in every trade dress infringement suit. . . .

If the features of the trade dress sought to be protected are arbitrary and serve no function either to describe the product or assist in its effective packaging, there is no reason to require a plaintiff to show consumer connotations associated with such arbitrarily selected features.

Id. The rule in *Chevron* places trade dresses in the highest category of trademark protection. As Professor McCarthy explains:

Arrayed in an ascending order which roughly reflects their eligibility to trademark status and the degree of protection afforded, the categories are: (1) generic terms; (2) descriptive; (3) suggestive; and (4) arbitrary or fanciful.

McCarthy, *supra*, § 11:1, at 433.

Under the rule in the Fifth Circuit, a trade dress may fall into the highest category of protection; that is, it may be so "arbitrary or fanciful" that it is deemed to be "inherently distinctive." This untoward rule permits a trade dress to serve "immediately upon use as a symbol of origin -- that is, as a 'trademark.'" *Id.*, § 15:1, at 656. However, as Professor McCarthy has noted, if a mark is deemed "inherently distinctive," then it is "irrebuttably presumed to have achieved customer recognition and association immediately upon adoption and use," a clear impossibility here. *Id.* As Professor McCarthy also explains: "By definition, 'inherently distinctive' words and symbols need no proof of distinctiveness," and, therefore, do not require secondary meaning to be protectable. *Id.*, § 11:1, at 433. Moreover, in Professor McCarthy's further view, trade dresses are weak marks and are not, by their nature, inherently distinctive, so that proof of secondary meaning is required. *Id.*, § 15:1, at 657. In this case, the Fifth Circuit adopts a contrary and aberrational rule that tips this analysis on its head.

The lowest categories of protection accrue to generic and descriptive marks. In *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 105 S. Ct. 658, 83 L. Ed. 2d 582 (1985), this Court discussed the distinction between generic and merely descriptive marks: "A generic term is one that refers to the genus of which the particular product is a species" and consequently is not registrable, whereas "a 'merely descriptive'

mark . . . describes the qualities or characteristics of a good or service, and this type of mark may be registered only if the registrant shows that it has acquired secondary meaning, *i.e.*, it 'has become distinctive of the applicant's goods in commerce'" (quoting 15 U.S.C. §§ 1052(e), (f)).

This Court noted that the process of registering a trademark at the federal level involves review by the Patent and Trademark Office to determine whether secondary meaning must be shown; and that the successful registrant may rely on the incontestability provisions of the Lanham Act to "quiet title in the ownership of his mark." *Id.*, 469 U.S. at 663. The result, therefore, is to bring a degree of certainty and predictability to both trademark holders, who may rely on the registration process with respect to the need to show secondary meaning, and to interested persons, who are placed on notice of the asserted rights.

No such process applies to the trade dress of a building. The Court of Appeals steers trademark law into murky waters. Without the independent check of requiring proof of secondary meaning, any conglomeration of features and their attending decor is a potentially protectable trade dress; any business that borrows from that trade dress is a potential infringer. With respect to trade dresses, there is no system of independent review, official registration or notice. Under the Court of Appeals' formulation, there is no objective means by which the prudent entrepreneur or business entity, or their legal counsel, can test whether certain aspects of a trade dress may be freely used, or may be "inherently distinctive" and, accordingly, protected by trademark law, even if consumers do not associate the trade dress with the source.

Trade dresses present a greater degree of uncertainty in these regards than other trademarks. Other marks are typically words, names or symbols that either have (i) a "primary meaning" or (ii) are invented and are so arbitrary that they consequently lack any primary meaning. The "primary meaning" of a word trademark is the meaning one would find for the word in everyday use, that is, one that could be found

in a dictionary. If the mark has a primary meaning, then secondary meaning must become attached to the mark if it is to be protectable. If the mark has no primary meaning, then secondary meaning is typically not required. Professor McCarthy explains:

Fanciful marks consist of "coined" words which have been invented for the sole purpose of functioning as a trademark. Such marks comprise words which are either totally unknown in the language or are completely out of common usage at the time, as with obsolete or scientific terms. The fact that lexicographers or devotees of antiquity may recognize the word is irrelevant to the fact that the word is totally unfamiliar to the ordinary consumer.

If, in the process of selecting a new mark, a seller sits down and invents a totally new and unique combination of letters or symbols which results in a mark which has no prior use in the language, then the result is a "coined" or "fanciful" mark.

McCarthy, *supra*, § 11:3, at 436.

Unlike many trademarks, trade dresses do not ordinarily possess a primary meaning, but that does not necessarily mean they are arbitrary and fanciful and therefore protectable as inherently distinctive. This is a point on which the District Court and Court of Appeals became confused. Just because there is no "dictionary of trade dresses" in which to look, in order to learn if there is a primary meaning to overcome, does not mean that primary meaning is not involved or that proof of secondary or *some associational meaning* is not required. To understand why, consider what inherent distinctiveness means, with respect to a trade dress, in the absence of secondary or

associational meaning. First off, the notion of *inherence*, as in "inherently distinctive," is typically absent with respect to a trade dress. The Oxford Universal Dictionary (3d ed. rev. 1963) defines "inherent" to mean existing in something as a permanent attribute or quality. The same dictionary defines "distinctive" as having the ability to distinguish, differentiate or discriminate. Combining these meanings, "inherently distinctive," in regard to a mark, is properly understood to mean that the mark has existing in it, the permanent, implicit ability to distinguish a single source or origin for goods or services from all other sources or origins and do so at the outset or *ab initio*. This is very nearly impossible for a trade dress. Trade dresses rarely have such an inherent capacity, especially in regard to restaurants, because they necessarily include functional, generic and descriptive elements common to other such dresses.

The point is well illustrated by this case: The jury found Taco Cabana's trade dress did not have secondary meaning, but that it was inherently distinctive. Yet the jury's finding of inherent distinctiveness was as to a recognizably "Mexican" and, therefore, descriptive decor. Taco Cabana's Mexican decor, standing alone, conveys information as to the type of food and geographic source of the product sold by the business. The Mexican decor communicates the prospect of Mexican cuisine and is analogous to a sign reading "Mexican food." Restaurants with Mexican decor do not serve Chinese cuisine and restaurants with Chinese decor do not serve Mexican food. As indicated, the Mexican decor of Taco Cabana also identifies the food sold in that restaurant by geographical origin by using decorative items from the same geographical area. Accordingly, to the extent Taco Cabana's restaurant trade dress has a "primary meaning," it is -- "this is a Mexican restaurant which serves Mexican food" -- it must have secondary meaning to be protectable and cannot, therefore, be inherently distinctive.

The inadequate jury instruction on inherent distinctiveness is reproduced in the Statement of the Case herein. That instruction entirely fails to instruct on the idea of *inherent*

distinctiveness. The instruction fails to explain that, to be *inherently* distinctive, Taco Cabana's trade dress must have, as one of its permanent, implicit and immutable characteristics, the ability to distinguish a single source or origin from all others. The substance of the concept was lost. Moreover, under a proper understanding, no instruction on inherent distinctiveness would have been required or even proper. Outside the Fifth Circuit, the lack of secondary meaning would have fatally resolved the question of distinctiveness against Taco Cabana's claims.

Without instruction on these elements and principles, the notion of inherent distinctiveness is susceptible, in the Fifth Circuit, only to the subjective reaction of the viewer, much like Justice Stewart's oft-quoted test for obscenity: "I know it when I see it." *Jacobellis v. Ohio*, 378 U.S. 184, 197, 84 S. Ct. 1676, 1683, 12 L. Ed. 2d 793 (1964) (concurring opinion). However, pornography is not promoted by the federal government, whereas free competition is. A business competitor should not have to endure a jury trial to find whether the trade dress he thought useful is protected by the Lanham Act. In dispensing with the requirement that secondary meaning be shown, the Court of Appeals opens, and sends Taco Cabana through, a door wide enough to make any trade dress protectable based on only subjective, arbitrary judgments.

It is respectfully submitted that the better view, and the one more consistent with the policies embedded in United States intellectual property law, would be to hold that the absence of secondary meaning of a trade dress precludes finding inherent distinctiveness. As stated in *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 843 (9th Cir. 1987):

Fuddruckers [a self-service hamburger restaurant], moreover, has not offered this court a definition of what "inherently distinctive" in the trademark sense might mean in the absence of secondary meaning. If purchasers do not, in fact, associate Fuddruckers's trade dress with a

source of restaurant services, then it difficult to see how that trade dress distinguishes Fuddruckers' service from the service of others.

826 F.2d at 843. As Professor McCarthy has written:

[T]he buyer is not confused unless he is looking for a package he recognizes and picks another in his confusion. Consequently, a buyer who does not recognize plaintiff's package appearance and does not distinguish it from any other, cannot be confused.

McCarthy, *supra*, § 8:2, at 232.³

In *Fuddruckers*, the Ninth Circuit panel also suggested the nonsensicality of a finding of inherent distinctiveness in the absence of secondary meaning. The notion is, as the *Fuddruckers* court further explained:

If, as *Fuddruckers* argues, its claimed trade dress is *inherently distinctive*, the further requirement of a showing of secondary meaning would be superfluous.

Id. (emphasis in original).

Moreover, requiring that a trade dress have secondary meaning to be protectable would further the view expressed by this Court in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157, 109 S. Ct. 971, 981, 103 L. Ed. 2d 118 (1989), that trademark law is permitted to regulate unpatented trade

³ It is interesting to note that Professor McCarthy served as an expert witness for Taco Cabana at trial, but was dismissed without Two Pesos having had an opportunity to cross examine him.

dresses only "to protect[] consumers from confusion as to source (emphasis in original)." Where this purpose is not furthered, as when secondary meaning is lacking, then a finding of trademark infringement conflicts with the broader federal policy of free competition. In *Bonito Boats*, the Court quoted approvingly Judge Learned Hand's statement:

The plaintiff has the right not to lose his customers through false representations that those are his wares which in fact are not, but he may not monopolize any design or pattern, however trifling. The defendant, on the other hand, may copy plaintiff's goods slavishly down to the minutest detail: But he may not represent himself as the plaintiff in their sale.

484 U.S. at 157 (quoting *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917)). In jettisoning the need for a showing of secondary meaning before a trade dress may be protectable, the Court of Appeals has thrown Judge Hand's balancing principle overboard and replaced it with nothing.

This Court should grant certiorari to review the judgment of the Court of Appeals and determine whether it, or the alternative view discussed in *Fuddruckers*, is the law throughout the United States.

B. The Court of Appeals' Extension of Protection to Functional Features Effectively Grants Exclusive and Perpetual Rights to Features That Are Not Protectable under Patent Law or Traditional Trademark Law.

Two Pesos has been held liable, under the Lanham Act, for infringing the trade dress of another Mexican restaurant, even though that restaurant, Taco Cabana, has admitted that its trade dress is comprised, virtually *in toto*, of functional features. The decision of the Court of Appeals, affirming this conclusion,

is that combinations of functional features may be protected. This conclusion seriously unsettles the boundaries of trademark and patent law.

As noted by the Court in *Bonito Boats*, 489 U.S. at 164, "Where an item in general circulation is unprotected by patent, 'reproduction of a functional attribute is legitimate competitive activity'" (quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. at 844, 863 (1982)). In striking down a Florida statute barring the use of a direct molding process to copy unpatented boat hulls, the Court stated that "[t]he efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions." 489 U.S. at 141. Federal policy "favor[s] free competition in ideas which do not merit patent protection," *id.*, and there is nothing inherently improper in copying a competitor's product: "To a limited extent, the federal patent laws must determine not only what is protected, but also what is free for all to use." *Id.* at 151.

The Court also noted that "[t]rade dress is, of course, potentially the subject matter of design patents." *Id.* at 154. Consistent with the view that there be free competition with respect to useful ideas, the functional aspects of a trade dress are protectable through patents, if at all. As stated in *Bonito Boats*, "the common-law tort of unfair competition has been limited to protection against copying of nonfunctional aspects of consumer products which have acquired secondary meaning such that they operate as a designation of source." 489 U.S. at 157. Functionality is a defense to a suit under Section 43(a) of the Lanham Act. See *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851 & n. 10, 102 S. Ct. 2182, 2187 & n. 10, 72 L. Ed. 2d 606 (1982).

The Court of Appeals' opinion departs from these principles. Two Pesos copied restaurant features of the Taco Cabana restaurants that are functional, but not protected by any patent. Indeed, the originator and founder of Taco Cabana admitted several times at trial that all of the features of Taco Cabana's trade dress were functional except for the

plants and decor. [T 9/28, 160; 10/20, 19 & Plaintiffs' Exhibit 231] Nevertheless, the court held that:

[A] particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection.

The teaching of this ruling is, if one aggregates enough functional features, then the totality may be forever protected under trademark law, even though a limited term patent is unavailable to protect any one of those features, much less their combination.

The impracticality of applying the Court of Appeals' rule is demonstrable. First, it is inconceivable how functional features might be combined in an "arbitrary" manner. Under the previously cited definition, a "functional" feature is one that is essential for a business to compete effectively, or one that affects the cost or quality of the product. Therefore, if each feature of a competitor's product is functional, then -- by definition -- the same features will be needed by an efficient business to compete in an effective manner. The selection of functional features is not arbitrary, but rather is guided by the concept of the product being generated.

In *Inwood Laboratories, Inc.*, 456 U.S. at 851 n. 10, a Lanham Act case, this Court stated that "[i]n general terms, a product feature is functional if it is essential to the use or purpose of the article or if it affects the cost or quality of the article." In *Two Pesos*' case, these features included (a) a narrow rectangular restaurant shape, induced by the sale of commercial property by the lineal frontage foot; (b) a front patio dining area, partly under roof, with a patio area capable of being closed off in bad weather by overhead garage doors that require no dining room area swing space, (c) an angled order counter, to accommodate a longer line, necessitated by the narrowness of the restaurant on the dimension of its frontage; and (d) awnings and umbrellas to provide shade for restaurant patrons on the patio areas.

Also, Two Pesos selected its colors and decor to be Mexican. Two Pesos' -- and Taco Cabana's -- trade dress is, in essence, the Mexican cabana style of restaurant seen up and down the western coast of Mexico, with garage doors added for inclement weather. Each feature has its own, independent logic, and the combination of these features is not arbitrary, but rather is guided by the unprotectable business idea being implemented: a Mexican cabana restaurant with patios. At root, the Court of Appeals' statement about so-called arbitrary combinations of functional features amounts to a guise for granting protection to a business concept, an obvious, express goal of the restauranteurs who were Taco Cabana's expert witnesses.

To further examine the practical difficulty in the Court of Appeals' reasoning, consider a fast food hamburger franchise and compare the combination of functional features of, say, a "McDonald's" with a "Burger King." Each typical McDonald's restaurant has an outside "menu" leading to a speaker and microphone, where a drive up customer may place an order to be picked up at a window around the corner. The typical restaurant also has an elongated counter with multiple cash registers and a long, overhead menu to facilitate ordering and speed of delivery. In the highly competitive field of fast food, each functional feature adopted -- with its added competitive advantage -- ends up being quickly copied by other competitors.

The functional features of a typical McDonald's are not combined in an "arbitrary" manner, but rather were guided by a business concept -- one that has been successful for not only McDonald's, but also many of its competitors. If the first few McDonald's restaurants had been declared by a court to be a protectable "combination" of functional features, then the field of McDonald's competitors would undoubtedly be very much smaller today. That hypothetical ruling is the ruling which Two Pesos faces.

Traditional patent, copyright and trademark law is careful to distinguish between protectable intellectual property and

unprotectable general "concepts," such as the "Mexican cabana style restaurants" concept involved in this case, or the "fast food hamburger restaurant" concept of the foregoing example. The intellectual property laws of the United States are intended to provide entrepreneurs, inventors and authors with adequate incentive to be creative while, at the same time, not placing undue limits upon free market competition. These competing goals are balanced through an integral relationship between patent, copyright and trademark law. In distorting trademark law to cover aggregations of admittedly functional features, the Court of Appeals' decision has heavily tipped the balance against free competition. The chilling effect of its ruling will immeasurably stifle many would-be competitors and will grant a competitive wind-fall to Taco Cabana.

To obtain 17-year exclusive utility patent rights, an inventor must establish that the invention is useful, novel and nonobvious, in view of all known prior art. 35 U.S.C. §§ 1 *et seq.* This burden is borne in an extensive and rigorous examination process within the United States Patent and Trademark Office. This process can often take several years. Utility patent protection is limited to utilitarian or functional inventions. The effectiveness of federal patent law "in inducing creative effort and disclosure of the results of that effort, depend[s] almost entirely on a backdrop of free competition in the exploitation of unpatented designs and innovations." *Bonito Boats*, 489 U.S. at 151. Moreover, as this Court has noted:

In the [patent] application process, detailed information concerning the claims of the patent holder is compiled in a central location. The availability of damages in an infringement action is made contingent upon affixing a notice of patent to the protected article. The notice requirement is designed "for the information of the public," and provides a ready means of discerning the status of the intellectual property embodied in an article of manufacture or design. The

public may rely upon the lack of notice in exploiting shapes and designs accessible to all.

Bonito Boats, 489 U.S. at 161 (citations omitted; quoting *Wine Ry. Appliance Co. v. Enterprise Ry. Equipment Co.*, 297 U.S. 387, 397, 56 S. Ct. 528, 5431, 80 L. Ed. 736 (1936)).

Copyright laws provide exclusive rights for various limited terms to authors and composers regarding the performance, display, distribution, reproduction or preparation of derivative works of the copyrighted work. Copyright law protects the expression of ideas, but not the ideas themselves, and provides that functional items such as processes, systems and methods of operation are not copyrightable. See 17 U.S.C. § 102(b). An author risks forfeiture of his copyright if he publishes his work without a proper copyright notice. See 17 U.S.C. § 405.

Trademark law is intended to prevent confusion in the minds of customers as to the source or origin of goods or services used in connection with marks. Trademark registration entails review and examination of an application for federal registration by a trademark attorney in the United States Patent and Trademark Office. During this examination, the trademark examiner reviews the application and makes determinations relating to descriptiveness and the need to establish secondary meaning.

Functionality is an aberrational doctrine that does not generally arise under trademark law, except in regard to trade dress cases where its purpose is to support the policies and preserve the relationship of patent, copyright and trademark law in the absence of a registration process. Functionality is not a part of the attorney's inquiry and is not part of the examination process on an application for federal registration. The functionality test is judicial gloss applied in trade dress litigation to coordinate and support the underlying public policies of American intellectual property law because trade dresses are not typically registered or registrable.

In *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971 (2d Cir. 1987), the Second Circuit analyzed trade dress protection in the context of federal patent policy. It concluded that extension of trade dress protection for an unlimited time to an aggregation including significant functional features is totally incompatible with American patent law. *Id.* at 977-78. In reaching that conclusion, the court extended the analysis of the Fifth Circuit decisions in *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417 (5th Cir. 1984) and *Sno-Wizard Manufacturing, Inc. v. Eisemann Products Co.*, 791 F.2d 423, 425 (5th Cir. 1986). The court in *Stormy Clime* observed that, unlike a federally registered trademark, patent and copyright, a trade dress claim undergoes no review process at all before any coordinating federal review agency, such as the United States Patent and Trademark Office.

Professor McCarthy concurs:

If there is to be legal protection for functional features, such protection can only be gained by utility patent protection limited in time, not perpetual protection under trademark law.

McCarthy, *supra*, § 7:26, at 236.

For the foregoing reasons, the Court of Appeals' *Taco Cabana* decision granting protection to combinations of functional features should not stand. This Court should make clear now, as it set forth to do in *Ives Laboratories* and *Bonito Boats*, that business competitors may copy the unpatented, functional features without fear of an infringement action. That bright line test, in contrast with the Court of Appeals' incomprehensible "arbitrary combination" of functional features formulation, will best serve the interests of free competition and preserve the balance of competing policies in United States intellectual property law.

II. THE COURT OF APPEALS' DECISION AFFORDS A GOOD OPPORTUNITY FOR THIS COURT TO PROVIDE NEEDED GUIDANCE REGARDING AN EMERGING AREA OF TRADEMARK AND UNFAIR COMPETITION LAW.

The uncertainties for business created by the Court of Appeals' decision, as discussed in the foregoing sections, are compounded by the fact that the issues presented implicate a broad range of interstate commerce. As the Court has stated:

Given the ephemeral nature of property in ideas, and the great power such property has to cause harm to the competitive policies which underlay the federal patent laws, the demarcation of broad zones of public and private right is "the type of regulation that demands a uniform national rule."

Bonito Boats, 489 U.S. at 162-63 (quoting *Ray v. Atlantic Richfield Co.*, 435 U.S. 151, 179, 98 S. Ct. 988, 100, 55 L. Ed. 2d 179 (1978)).

The uncertainty created by the Court of Appeals' ill-considered revision of the application of the functionality doctrine casts a chill over any would-be competitor impressed with an existing rival's business concept. A check with the Patent and Trademark Office cannot remove the risk of landing in Two Pesos' predicament. The need for clarity is evident. The analysis is not difficult. Only this Court can resolve the difference between the federal circuits.

In addition, this case affords an excellent opportunity to determine the issues presented. The issues are distinct and well presented. The lack of secondary meaning is not contested. The functionality of features comprising Taco Cabana's trade dress is conceded.

Finally, this case presents the Court with an opportunity to clarify questions left unanswered in its opinions in *Bonito Boats* and *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964). In both cases, the Court discussed the conflict between the federal patent scheme and state laws that encroached onto this area and, consequently, upset the delicate balances set forth in the United States' intellectual property laws:

A state law that substantially interferes with the enjoyment of an unpatented utilitarian or design conception which has been freely disclosed by its author to the public at large impermissibly contravenes the ultimate goal of public disclosure and use which is the centerpiece of federal patent policy. Moreover, through the creation of patent-like rights, the States could essentially redirect inventive efforts away from the careful criteria of patentability developed by Congress over the last 200 years.

In *Bonito Boats*, the Court noted that the "broadest reading" of the principle involved in *Sears*, logically extrapolated, "would prohibit the States from regulating the deceptive simulation of trade dress or the tortious appropriation of private information." 489 U.S. at 154. In short, all state trademark and unfair competition laws would be preempted.

However, the Court stated in *Bonito Boats* that such a reading would go too far, because the opinion in *Sears* had stated that the states "may protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods." *Id.* (quoting *Sears*, 376 U.S. at 232). Noting that "[t]rade dress is, of course, potentially the subject matter of design patents," the Court nevertheless carved out an area where state regulation of trade dresses is appropriate:

Yet our decision in *Sears* clearly indicates that the States may place limited regulations on the circumstances in which such designs are used in order to prevent consumer confusion as to source. Thus, while *Sears* speaks in absolutist terms, its conclusion that the States may place some conditions on the use of trade dress indicates an implicit recognition that all state regulation of potentially patentable but unpatented subject matter is not *ipso facto* pre-empted by the federal patent laws.

Id.

This case presents the question unanswered in *Sears*, with the conflict being horizontal rather than vertical: Should the federal Lanham Act be allowed to expand into the areas traditionally governed by patent law so as to protect, as intellectual property, ideas not governed by any patent, and not registered under any scheme? This Court has refused to permit the states to enter this domain on the ground of federal preemption. Yet the policy behind *Sears*, which is grounded in the Constitution -- free competition and exploitation of ideas where, as here, notice is not given taking those ideas out of the public domain -- applies with equal force here. As this Court has recognized, "[I]mitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats*, 489 U.S. at 146. This case presents an ideal opportunity to clarify the law at the federal level, and to bring about the uniformity needed to deal with the "ephemeral" doctrines of United States intellectual property law.

Conclusion

For the foregoing reasons, the Court should grant the petition and review the decision of the Court of Appeals for the Fifth Circuit.

October 18, 1991

Respectfully submitted,

Kimball J. Corson
Counsel of Record

Appendix A

**TACO CABANA
INTERNATIONAL, INC.,
Plaintiff-Appellee
v.
TWO PESOS, INC.,
Defendant-Appellant.
No. 89-2203.**

United States Court of
Appeals Fifth Circuit.

June 11, 1991.

Action was brought for trade dress infringement and misappropriation of trade secrets in defendant's imitation of appearance and motif of plaintiff's Mexican restaurants. The United States District Court for the Southern District of Texas, John V. Singleton, Jr., J.,

entered judgment for plaintiff and defendant appealed. The Court of Appeals, Reavley, Circuit Judge, held that: (1) the embodiment of descriptive elements in trade dress did not disqualify it for inherent distinctiveness; (2) license of trade dress to another group of restaurants did not result in abandonment where licensor exercised adequate supervision and control over quality of licensee's goods and services; and (3) filing of architectural plans in order to obtain building permit did not eviscerate proprietary rights in trade secrets.

Affirmed.

**Synopsis, Syllabi and Key Number Classification
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The Synopsis Syllabi and Key Number Classification constitute no part of the opinion of the court.

1. Trade Regulation--332

Trade dress infringement is established by showing that: the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and that the dress has been infringed, which requires considering the likelihood of confusion. Lanham Trade-Mark Act, § 1 et seq., as amended. 15 U.S.C.A. § 1051 et seq.

2. Trade Regulation--43

The "trade dress" of a product is essentially its total image and overall appearance. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

See publication Words and Phrases for other judicial constructions and definitions.

3. Trade Regulation--413, 461

Competitor can use elements of merchant's trade dress, but merchant can protect combination of visual elements that, taken together, may create distinctive visual impression. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

4. Trade Regulation--413

Entrant into the Mexican fast-food market could not copy competitor's distinctive combination of layout and design features. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

5. Trade Regulation--20

While functional features cannot be given trade dress protection, a particular arbitrary combination of functional features, the combination of

which is not itself functional, properly enjoys protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

6. Trade Regulation--20

Finding of functionality can be found if protecting trade dress threatens to eliminate substantial swath of competitive alternatives in relevant market; design should be considered de jure functional if it is the best or one of the few superior designs available. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

7. Trade Regulation--705

Instruction in action for trade dress infringement with respect to Mexican restaurants that trade dress protection is denied where the particular combination "must be used by others in order to compete" did not mislead jury or prejudice

defendant, where jury heard substantial evidence of alternative combinations that could be used to compete effectively, and record contained ample evidence that plaintiff's trade dress was, taken as a whole, nonfunctional. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

8. Trade Regulation--10

If mark or dress serves as symbol of origin it is considered distinctive and protectable, but if it is not deemed inherently or sufficiently distinctive, secondary meaning must be established. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

9. Trade Regulation--705

Instruction in action for infringement of trade dress sufficiently guided jury as to elements of inherent

distinctiveness of plaintiff's dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

10. Trade Regulation--25

Infringement of trade dress for Mexican restaurant by competitor warranted redress even if plaintiff's trade dress was merely suggestive and weak. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

11. Trade Regulation--10

Trade dress for Mexican restaurant did not surrender possibility of inherent distinctiveness merely by embodying certain descriptive elements. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

12. Trade Regulation--73

A "naked license" to use

the same trade dress signals involuntary abandonment and forfeits protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

13. Trade Regulation--73

Owner may license its trademark or trade dress and retain proprietary rights if owner maintains adequate control over quality of goods and services that licensee sells with the mark or dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

14. Trade Regulation--73

Cross-license by which two brothers divided Mexican restaurants, one brother retaining the original name and the other adopting a new name, and allowing the two groups to use the same trade dress, did not result in forfeiture of protection of trade dress where the licensor exercised

adequate supervision and control over licensee to ensure that quality of licensee's goods and services were not inferior to licensor's. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

15. Trade Regulation--73

Where circumstances of cross-license of trade dress for Mexican restaurants insured consistent quality, abandonment of trade dress would not be found simply for want of inspection and control formalities. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

16. Trade Regulation--345

Indicia of confusion in trade dress infringement action include type of trade dress at issue, similarity between trade dresses, similarity of products or services provided, whether

plaintiff and defendant were in market competition for same customers, whether plaintiff and defendant were likely to use same advertising media, defendant's intent in its adoption of its trade dress, and instances of actual confusion; no single factor is necessarily dispositive and proof of actual confusion is not necessary. Lanham Trade-Mark Act § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

17. Trade Regulation--413

Appropriation of trade dress of Mexican restaurants by competitor created likelihood of confusion between unrelated entities and constituted unfair competition. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

18. Torts 10(5)

T r a d e s e c r e t

misappropriation in Texas requires existence of trade secret, breach of confidential relationship or improper discovery of trade secret, use of trade secret, and damages.

19. Torts--10(5)

A "trade secret" under Texas law is any formula, pattern, device or compilation of information used in one's business, and which gives opportunity to obtain advantage over competitors who do not know or use it.

See publication Words and Phrases for other judicial constructions and definitions.

20. Torts--10(5)

Architectural plans and kitchen layout and design drawings for restaurant may be trade secrets under Texas law.

21. Torts--10(5)

Mexican restaurant's architectural plans and kitchen equipment layout and design did not lose status as trade secrets, under Texas law, by reason of disclosure of restaurant plans to contractors or by fact that competitor obtained architectural plans from municipality under the Texas Open Records Act. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

22. Torts--10(5)

Fact that Mexican restaurant was required to file architectural plans to obtain building permit did not eviscerate its legitimate proprietary rights in the plans as trade secrets under Texas law. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

23. Torts--27

Evidence supported

conclusion that Mexican restaurant appropriated trade secrets by using architectural plans of competitor in building its restaurants.

24. Trade Regulation--679

Recovery for infringement of trade dress may include economic benefits that normally would have been received by licensing. Lanham Trade-Mark Act §§ 35, 35(a), 43(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a), 1143(a).

25. Injunction--189

In fashioning relief against a party who has transgressed governing legal standards, court of equity is free to proscribe activities that, standing alone, would have been unassailable.

26. Trade Regulation--540

Remedy in action for

infringement of trade dress for Mexican restaurant and for appropriation of trade secrets, requiring structural changes and corrective advertising, were not improperly punitive rather than compensatory.

Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

27. Trade Regulation--679

The "headstart" theory was appropriate framework for remedy for infringement of trade dress for Mexican restaurants by competitor that preempted various markets, and entitled plaintiff to recover for deprivation of benefits that would not accrued from licensing without proof of actual confusion or quantification of damages from diverted sales. Lanham Trade-Mark Act, § 35, 35(a), 43(a), as amended, 15 U.S.C.A.

§§ 1117, 1117(a), 1143(a).

28. Trade Regulation--540

The Lanham Act endows district court with considerable discretion in fashioning appropriate remedy for infringement. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

29. Trade Regulation--683

Enhancement of damages for trade dress infringement may be based on finding of willful infringement, but cannot be punitive. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

30. Trade Regulation--683

Doubling of jury award for infringement of trade dress, upon finding that infringer's conduct was

willful and deliberate, was not abuse of discretion. Lanham Trade-Mark Act, §§ 35, 35(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a).

31. Trade Regulation--729

In reviewing award of attorney fees under the Lanham Act provision for fees in "exceptional case," court would not regiment discretion of district courts seeking equity by applying the same standard for enhancement of damages. Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

32. Trade Regulation--729

Award of attorney fees in action for infringement of trade dress for Mexican restaurants, involving brazen imitation and rapid market foreclosure, was not an abuse of discretion.

Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

33. Damages--103

Trade-secret misappropriation damages typically embrace some form of royalty.

34. Damages-137

Award of \$150,000 for misappropriation of trade secrets of Mexican restaurants, involving sales in scores of millions and impressive profits, was not unreasonable.

Appeal from the United States District Court for the Southern District of Texas.

Before REAVLEY, GARWOOD, and BARKSDALE, Circuit Judges.

REAVLEY, Circuit Judge:

Taco Cabana complained of the imitation of the appearance and motif of its Mexican restaurants by Two Pesos. Taco Cabana won a judgment for trade dress infringement under the Lanham Act and misappropriation of trade secrets under Texas law. Two Pesos appeals, claiming that Taco Cabana's trade dress is not protectable because the Mexican motif is not protectable, and that Taco Cabana surrendered any claim it had to Lanham Act protection by cross-licensing with another restaurant and retaining the same trade dress for two different restaurant names. Two Pesos also claims that it obtained the alleged trade secrets--architectural plans and kitchen equipment layout--in a lawful manner and cannot be guilty as a matter of law for trade secret misappropriation. We affirm.

BACKGROUND

Two brothers, Felix and Mike Stehling, opened the first Taco Cabana restaurant in San Antonio in September 1978, and opened five more restaurants in San Antonio by 1985. Taco Cabana describes its Mexican fast-food trade dress as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

In December 1985, Marno McDermott and Jim Blacketer opened Two Pesos in Houston. Two Pesos adopted a motif essentially consistent with the above description of Taco Cabana's trade dress,¹ and expanded rapidly in Houston and other markets in and out of Texas,² but did not enter San Antonio. In 1987, Taco Cabana sued Two Pesos for trade dress infringement under section 43(a) of the Lanham Act and for theft of trade secrets under Texas common law.

Six days before filing suit against Two Pesos, the Stehling brothers entered into a series of agreements dividing the Taco Cabana restaurants between themselves and going their separate ways. Felix Stehling retained the "Taco Cabana" name, and Michael Stehling adopted the name "TaCasita." The agreements allowed the two groups to

use the same trade dress, though one provision required "reasonable efforts to modify their trade dress for their respective future restaurants sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind." The Stehlings have not altered their respective trade dresses. After filing suit, Taco Cabana expanded into several cities, including Houston and Dallas where Two Pesos was already doing business.

The jury found that:
(1) Taco Cabana has a

trade dress; (2) Taco Cabana's dress, taken as a whole, is non-functional; (3) the dress is inherently distinctive; (4) the dress has not acquired secondary meaning in the Texas market; (5) customers might likely associate or confuse a Taco Cabana restaurant with a Two Pesos restaurant; (6) Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's; and (7) Taco Cabana was damaged by the trade dress

1. Phil Romano, a restaurateur since 1965 who developed the successful Fuddruckers chain, testified that Taco Cabana and Two Pesos are "shaped the same. They look the same. When you're inside they feel the same. They have the same product."

2. Between December 1985 and August 1988, Two Pesos opened 29 restaurants.

infringement. The jury awarded \$306,000 for lost profits, \$628,300 for lost income, and \$0 for loss of good will. The district court doubled the damages for trade dress infringement (bringing the total to \$1,868,600), awarded attorneys fees of \$937,550, and ordered Two Pesos to make several changes in its restaurant design.

Taco Cabana also claimed misappropriation of the following trade secrets: (1) certain architectural drawings; (2) its kitchen equipment layout and design; and (3) its kitchen and restaurant operating procedures. The jury found that Two Pesos misappropriated the architectural drawings and the kitchen equipment layout and design, but not the operating procedures. The jury awarded \$150,000 for the misappropriation. The district court entered judgment on the jury's

verdict, and denied Two Pesos' motions for judgment n.o.v. and for a new trial. Two Pesos appeals.

DISCUSSION

I. Trade Dress Infringement

[1, 2] Trade dress infringement is established by showing that: (1) the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and (2) that the dress has been infringed, which requires considering the likelihood of confusion. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 425 (5th Cir. 1984).

A. The Threshold "Concept" Dispute.

The district court instructed the jury that:

"trade dress" is the total image of the business.

Taco Cabana's trade dress may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniform and other features reflecting the total image of the restaurant.

See Blue Bell Bio-Medical v. Cin-Bad, Inc., 864 F.2d 1253, 1256 (5th Cir. 1989) ("The 'trade dress' of a product is essentially its total image and overall appearance.").

Two Pesos argues that protectable trade dress is much narrower than "total image." The combined effect, Two Pesos argues, of Taco Cabana's consistent reference to "concept" and the district court's "total image" instruction was to mislead the jury into believing that Taco Cabana had a right to preclude competitors from using a Mexican theme for a Mexican restaurant.³ Taco Cabana cannot preclude Two Pesos or anyone from entering the upscale Mexican fast-food market. But the jury was not misled into protecting such an abstract level of Taco Cabana's trade dress.

3. *See Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986) ("[T]he district court committed error by including Prufrock's core concept in its definition of Prufrock's trade dress. Prufrock simply cannot preclude [defendant] from entering the 'down home country cooking' restaurant business.").

[3.4] A competitor can use elements of Taco Cabana's trade dress,⁴ but Taco Cabana "can protect a combination of visual elements 'that, taken together, . . . may create a distinctive visual impression.'" *Fuddruckers, Inc. v. Doc's B.R. Others,*

Inc., 826 F.2d 837, 842-43 (9th Cir. 1987), *quoting Falcon Rice Mill v. Community Rice Mill*, 725 F.2d 336, 346 (5th Cir. 1984). Two Pesos may enter the upscale Mexican fast-food market, but it may not copy Taco Cabana's distinctive combination of layout and

4. See *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 703 (5th Cir. Unit A 1981) (protecting "combination of particular hues of [plaintiff's] colors, arranged in certain geometric designs, presented in conjunction with a particular style of printing . . . would leave innumerable other combinations of the same colors . . ."), *cert. denied* 457 U.S. 1126, 102 S.Ct. 2947, 73 L.Ed.2d 1342 (1982); *cf. No Nonsense Fashions, Inc. v. Consolidated Foods Corp.*, 226 U.S.P.Q. 502 (T.T.A.B. 1985) ("Sheer Elegance" for pantyhose is a suggestive mark, and registration will not prevent competitors from descriptive use of "sheer," "elegant," or "elegance"). *But see AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1537 (11th Cir. 1986) (noting exception to general rule of totality when third party use of one or more elements of plaintiff's trade dress is so extensive and so similar to plaintiff's that it impairs ability of consumers to identify source), *cert. denied*, 481 U.S. 1041, 107 S.Ct. 1983, 95 L.Ed.2d 822 (1987).

design features.⁵ Two Pesos' imitation reflects not merely components of Taco Cabana's trade dress, but its distinctive integration of components. The instructions properly cautioned the jury not to focus on isolated components in determining the protectability of Taco Cabana's trade dress, but rather to consider the overall combination of elements.

B. The Elements of Protectability.

5. Two Pesos' own Franchise Agreement assumes the protectability of essentially that which it here asserts cannot be protected. That agreement defines trade dress as follows:

Franchisor employs certain distinctive and identifying restaurant layout and design features, including distinctive building design, decor, accessories and fixtures and other identifying trade dress in the interior and exterior of its Restaurants, which features . . . are collectively referred to as "Trade Dress."

1. *Functionality*

The portions of the trial court's instructions disputed by Two Pesos appear in bold type:

The law allows the copying of functional features in the public interest of enhancing competition. . . .

Even if the trade dress is made up of individual elements, **some of which serve a functional purpose**, the trade dress

may be protectable so long as the combination of these individual elements which define Taco Cabana's trade dress taken is arbitrary. On the other hand, if you find that Taco Cabana's trade dress taken as a whole **must be used by others in order to compete** in the Mexican fast-food restaurant business, then you should find that Plaintiff's trade dress is functional and not protectable.

[T]he inquiry into whether Taco Cabana's trade dress is functional or nonfunctional **should not be addressed to whether individual elements fall within the definition, but whether the whole collection of elements taken together are functional or nonfunctional.**

[5] Two Pesos' argument reduces to a fallacious syllogism: (1) Taco Cabana's trade dress

includes functional elements; (2) functional elements do not enjoy protection; (3) therefore Taco Cabana's trade dress does not enjoy protection. Two Pesos correctly emphasizes that functional features cannot be protected, *Sno-Wizard Mfg., Inc. v. Eisemann Products Co.*, 791 F.2d 423, 425 n. 2 (5th Cir. 1986), but a particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection. See *Sicilia*, 732 F.2d at 425 (design may be distinctive and identifying even though also related to performing a function); *Chemlawn Services Corp. v. GNC Pumps, Inc.*, 690 F.Supp. 1560, 1571 (S.D.Tex. 1988) (exterior configuration of functional parts arbitrarily selected; not necessary to copy configuration of each part to effectuate functions). Taco Cabana does not seek protection for individual

elements, but for a particular combination of elements which constitute trade dress as a whole. See *Sicilia*, 732 F.2d at 429.

With the doctrine of functionality, the law secures for the marketplace a latitude of competitive alternatives. See *Freddie Fuddruckers, Inc. v. Ridge-line, Inc.*, 589 F.Supp. 72, 77 (N.D. Tex. 1984) (policy predicate for functionality doctrine is public interest in enhancing competition), *aff'd without op.*, 783 F.2d 1062 (5th Cir. 1986); *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 977-78 (2d Cir. 1987) (functionality test critical to avoid upsetting patent law by indefinitely extending trade dress protection to an aggregation of elements that would otherwise enrich the public domain after expiration of

design patent). "The need to avoid monopolization of a design lessens, however, in the area of distinctive trade dress. The wide range of available packaging and design options allows a producer to appropriate a distinctive identity without unduly hindering his competitors' ability to compete." *Sicilia*, 732 F.2d at 426 n. 7. Taco Cabana's particular integration of elements leaves a multitude of alternatives to the upscale Mexican fast-food industry that would not prove confusingly similar to Taco Cabana's trade dress.

[6, 7] Though the district court may have overstated the law to instruct the jury that protection is denied where the particular combination "must be used by others in order to

compete,"⁶ under this record the instruction did not mislead the jury or prejudice Two Pesos. See *Smith v. Borg-Warner Corp.*, 626 F.2d 384, 387 (5th Cir. 1980) ("tolerably accurate, albeit incomplete, statement of law" did not constitute reversible error where instruction, "viewed in its worst light, merely gave plaintiff an instruction on an issue for which there was no evidence"). The jury heard substantial evidence of alternative combinations that could be used to compete effectively, and the

6. It should suffice for a finding of functionality if protecting the trade dress threatens to eliminate a substantial swath of competitive alternatives in the relevant market. "A design would be considered de jure functional if it is 'the best or one of a few superior designs available.'" *Sicilia*, 732 F.2d at 427 (emphasis added), quoting *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1341 (C.C.P.A. 1982).

record contains ample evidence that Taco Cabana's trade dress is, taken as a whole, nonfunctional.

2. *Inherent Distinctiveness & Secondary Meaning.*

[8] "If a mark or dress serves as a symbol of origin it is considered distinctive and protectable. Unless a mark or dress is deemed 'inherently' or 'sufficiently' distinctive, however, secondary meaning must be established."

Sno-Wizard, 791 F.2d at 425 n. 2.7 Arguing that simply "distinctive" trade dress is not enough, Two Pesos cites error in the district court's failure to address the quality of *inherence*. We find no reversible error.

[9, 10] The district court instructed the jury as follows:

Distinctiveness is a term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco

Cabana's trade dress distinguishes its products and services from those of other restaurants and is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive.

While the district court might have achieved greater semantic clarity by separately addressing distinctiveness an *inherent* distinctiveness, the instruction as a whole properly guided the jury as to the elements of inherent

7. Two Pesos' argument--that the jury finding of inherent distinctiveness contradicts its finding of no secondary meaning in the Texas market--ignores the law in this circuit. While the necessarily imperfect (and often prohibitively difficult) methods for assessing secondary meaning address the empirical question of current consumer association, the legal recognition of an inherently distinctive trademark or trade dress acknowledges the owner's legitimate proprietary interest in its unique and valuable informational device, regardless of whether substantial consumer association yet bestows the additional empirical protection of secondary meaning.

distinctiveness. A distinctive trade dress that is neither descriptive nor functional is *ipso facto* inherently distinctive.⁸

[11] Two Pesos argues that Taco Cabana's trade dress embodies descriptive

elements, which should disqualify the dress for inherent distinctiveness. "A *descriptive* term 'identifies a characteristic or quality of an article or service' ... such as its color, odor, function, dimensions, or ingredients."

8. As no one contends that Taco Cabana's trade dress is generic, the jury finding that the trade dress is not merely descriptive means that the dress is arbitrary, fanciful, or suggestive. We need not determine which of these three categories properly characterizes the trade dress, because all three entitle Taco Cabana to protection without proof of secondary meaning. A *weak* suggestive trade dress might narrow the *scope* of protection to competitors in the same product line, *see P.F. Cosmetique, S.A. v. Minnetonka Inc.*, 605 F.Supp. 662, 668-69 (S.D.N.Y. 1985) (suggestive packaging, coupled with wide use of elements, is "weak mark," and thus protected against infringement only by competing products), but Taco Cabana and Two Pesos directly compete in the Mexican restaurant market, and Two Pesos' trade dress infringement therefore warrants redress even if Taco Cabana's trade dress is merely suggestive and weak. *See Sun Banks of Fla. v. Sun Fed. Sav. & Loan Ass'n*, 651 F.2d 311, 315 (5th Cir. 1981) ("Although less distinctive than a fictitious, arbitrary or fanciful mark and therefore a comparatively weak mark, a suggestive mark will be protected without proof of secondary meanings.").

Zatarains Inc. v. Oak Grove Smokehouse, Inc., 698 F.2d 786, 790 (5th Cir. 1983) (finding "Fish-Fri" descriptive and not protectable), quoting *Vision Center v. Opticks, Inc.*, 596 F.2d 111, 115 (5th Cir. 1979), *cert. denied*, 444 U.S. 1016, 100 S. Ct. 668, 62 L.Ed.2d 646 (1980).

Taco Cabana's trade dress does not surrender the possibility of inherent distinctiveness merely by embodying certain descriptive elements. As with Two Pesos' flawed syllogism on functional elements, the existence of descriptive elements does not eliminate the possibility of inherent distinctiveness in the trade dress as a whole. "The whole, in trademark law, is often greater than the sum of its parts." *Association of Co-operative Members, Inc. v. Farmland Indus., Inc.*, 684 F.2d 1134, 1140 (5th Cir. 1982), *cert. denied*, 460 U.S. 1038, 103 S.Ct. 1428, 75

L.Ed.2d 788 (1983); *see also* 1 J. McCarthy, TRADEMARKS AND UNFAIR COMPETITION § 11:10 at 457 (2d ed. 1984) ("combination of two or more admittedly descriptive elements as a composite mark may result in a composite which is non-descriptive"; and quoting *Farmland Industries, supra*). Again, competitors may use individual elements in Taco Cabana's trade dress, but the law protects the distinctive totality. The jury visited both Taco Cabana and Two Pesos, and heard ample evidence of the distinctiveness of Taco Cabana's total trade dress, including the impressions of individuals responsible for the ultimate look of Two Pesos, who were sufficiently impressed with the distinctiveness of Taco Cabana's trade dress to replicate it. Given its rather brazen appropriation of Taco Cabana's distinctive combination, Two Pesos

cannot escape accountability for unfair competition simply by pointing to particular elements it might have fairly employed for its own trade dress.

C. The Legal Effect of the Cross-License.

[12] Prior to this litigation, this Stehling brothers divided the Taco Cabana restaurants. Felix Stehling retained the name "Taco Cabana," and Michael Stehling adopted the name "TaCasita." The agreement allowed the two groups to use the same trade dress, which Two Pesos calls a "naked license." But Two Pesos faces a stringent standard because finding a "naked license" signals involuntary trademark abandonment and forfeits protection. See *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619, 624-25 (5th Cir. 1963). While this cross-license arrangement is not governed closely by any

precedent, we find no basis for an involuntary abandonment.

[13, 14] An owner may license its trademark or trade dress and retain proprietary rights if the owner maintains adequate control over the quality of goods and services that the licensee sells with the mark or dress. See *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977) (quality-control rationale is that public has right to expect consistent quality of goods or services associated with trademark or trade dress). Two Pesos argues that the cross-license creates two separate sources of good will and thus cannot indicate a single origin. This argument ignores the emergence of the "quality theory," which broadens the older source theory "to include not only manufacturing source but also the source of the standards of

quality of goods bearing the mark" or dress. 1 J. McCarthy, *supra*, § 3:4 at 112. So long as customers entering a Taco Cabana or a TaCasita can expect a consistent level of quality, the trade dress retains its "utility as an informational device." *Kentucky Fried*, 549 F.2d at 387.

While the parties dispute the actual level of quality control, the jury's finding--that Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's --enjoys adequate record support. We also reject Two Pesos' argument that the district court erred in refusing to instruct the jury that TaCasita must also exercise quality control over Taco Cabana. Ignoring the record evidence of at least some bilateral quality monitoring, the law requires

consistent quality, not equivalent policing. The jury found the requisite quality consistency; we need not demand rigorous bilateral regulation.

[15] The purpose of the quality-control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress. Where the particular circumstances of the licensing arrangement persuade us that the public will not be deceived, we need not elevate form over substance and require the same policing rigor appropriate to more formal licensing and franchising transactions. Where the license parties have engaged in a close working relationship, and may justifiably rely on each parties' intimacy with standards and procedures to ensure consistent quality, and no actual decline in quality standards is demonstrated,

we would depart from the purpose of the law to find an abandonment simply for want of all the inspection and control formalities. See *Embedded Moments, Inc. v. International Silver Co.*, 648 F.Supp. 187, 194 (E.D.N.Y. 1986) (license agreement without explicit provision for supervisory control and absence of actual inspection nevertheless no basis for abandonment where prior working relationship established basis for reliance on licensee's integrity and history of manufacture was "trouble-free").

The history of the Stehling brothers' relationship warrants this relaxation of formalities. Prior to the licensing agreement at issue, the Stehling brothers operated Taco Cabana together for approximately eight years. Taco Cabana and TaCasita do not use significantly different

procedures or products, and the brothers may be expected to draw on their mutual experience to maintain the requisite quality consistency. They cannot protect their trade dress if they operate their separate restaurants in ignorance of each other's operations, but they need not maintain the careful policing appropriate to more formal license arrangements. Two Pesos adduces no evidence to indicate any decline in the level of quality at Taco Cabana or TaCasita, and we find nothing in the record to substantiate Two Pesos' claim that the licensing arrangement diminishes any proprietary rights in the trade dress.

D. Likelihood of Confusion.

[16] The district court properly instructed the jury on the likelihood of

confusion,⁹ the jury found for Taco Cabana on this issue, and we find no reversible error.

Ignoring the indicia of confusion that yield unfavorable answers, Two Pesos expends considerable energy assaulting the Gelb Survey offered by Taco Cabana. That survey asked customers: (1) if they had ever been to a TaCasita or Taco Cabana or Two Pesos restaurant; (2) if yes, which ones; (3) "Do you think that any of these stores are

owned or operated by the same company?" and (4) if so, "Why do you say that?" Questions 3 and 4 simply and objectively address the issue in this litigation. Subject to cross-examination and the other tools of the adversarial system, the jury could properly consider Mr. Gelb's conclusion that a substantial population of those who patronize quick-service Mexican restaurants, particularly those who have patronized Taco Cabana (where the survey was conducted), are likely to

9. The indicia of confusion in the Fifth Circuit, as the district court correctly instructed, include: (a) the type of trade dress at issue; (b) the similarity between the trade dresses; (c) the similarity of products or services provided; (d) whether the plaintiff and defendant were in market competition for the same customers; (e) whether the plaintiff and defendant were likely to use the same advertising media; (f) defendant's intent in its adoption of its restaurant trade dress; and (g) instances of actual confusion. *Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45 (5th Cir. 1975). No single factor is necessarily dispositive. *Falcon Rice*, 725 F.2d at 345 n. 9. Proof of actual confusion is not necessary. *Roto-Rooter*, 513 F.2d at 45-46.

believe that Taco Cabana and Two Pesos are owned or operated by the same company.

The Peterson survey offered by the Two Pesos is less helpful. That survey asked all respondents why they patronize Two Pesos. The survey then asked half of the respondents, "have you ever gone to another restaurant by mistake when you intended to go to a Two Pesos restaurant?" The other half were asked, "have you ever gone to a Two

Pesos restaurant by mistake when you intended to go to another restaurant?" Predictably, a statistically insignificant number of people confessed to what would appear to be a rather silly mistake.¹⁰ The issue is not whether consumers can read signs and menus that identify different restaurants, but whether consumers assume some affiliation between Taco Cabana and Two Pesos.

Surveys present evidence of actual confusion,

10. Seeking thoroughness, the surveyors called twelve of the individuals who did so confess to find out more about the nature of their "mistake." Peterson testified during direct examination that the specific responses demonstrated even less likelihood of confusion between Two Pesos and Taco Cabana, because, for example, one person said he had taken a wrong turn, drove into the wrong parking lot, and ended up at Two Pesos "by mistake." Thus even the few so-called mistakes, in Peterson's gloss, turned out to have nothing to do with trade dress. Such responses, far from demonstrating anything relevant about trade dress confusion, instead suggest that people did not understand what the question meant by "mistake."

which does not exhaust the confusion indicia. The other indicia considerably strengthen the basis for the jury finding: the similarity of the trade dress; the coincidence of products, markets, and advertising media; and Two Pesos' intent in adopting its trade dress.¹¹ For self-evident reasons, Two Pesos discusses none of these factors with the vigor of its survey arguments.

Finally, Two Pesos again attacks the cross-license arrangement, arguing

essentially that Two Pesos is not accountable for confusion in a market already subject to the confusion perpetuated by Taco Cabana and TaCasita. But a consumer who assumes some affiliation between Taco Cabana and TaCasita assumes correctly and therefore suffers no "confusion."¹² An equivalent assumption about Two Pesos, however, is incorrect, and properly indicative of the market confusion for which the Lanham Act provides redress.

11. See *Sno-Wizard*, 791 F.2d at 428 (intent alone may be enough to support finding of likelihood of confusion).

12. Two Pesos promotes the applicability of *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 705-06 (2d Cir. 1970) (plaintiff and defendant could not jointly or concurrently use Zeiss trademark because both companies directly competitive, sold same products, used same or very similar marks, marketed in many of the same areas and in the same manner, and there was actual confusion), *cert. denied*, 403 U.S. 905, 91 S.Ct. 2205, 29 L.Ed.2d 680 (1971). But in *Carl Zeiss*, the

[17] We therefore affirm the trial court's judgment that Two Pesos' appropriation of Taco Cabana's protectable trade dress creates a likelihood of confusion between unrelated entities, and thereby constitutes unfair competition.

II. Trade Secret Misappropriation

The jury found that Taco Cabana's architectural plans and kitchen equipment layout and design--but not its kitchen and restaurant operating procedures--constitute trade secrets, and that Two Pesos misappropriated these secrets. The jury awarded \$150,000 for the misappropriation.

plaintiff asserted *exclusive* rights to a trademark. There was no consideration of an amicable licensing arrangement. We would confront the persuasive force of this precedent if, for example, Taco Cabana or TaCasita petitioned the court to resolve a claim of exclusive right to the trade dress.

[18, 19] A trade secret misappropriation in Texas requires: (a) the existence of a trade secret; (b) a breach of a confidential relationship or improper discovery of the trade secret; (c) use of the trade secret; and (d) damages. *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 896 (5th Cir.), *cert. denied*, 454 U.S. 829, 102 S.Ct. 123, 70 L.Ed.2d 105 (1981). A trade secret is any formula, pattern, device or compilation of information used in one's business, and which gives an opportunity to obtain an advantage over competitors who do not know or use it. *Hyde Corp. v. Huffines*, 158 Tex. 566, 586, 314 S.W.2d 763, 776 (adopting RESTATEMENT OF TORTS § 757 (1939)), *cert.*

denied, 358 U.S. 898, 79 S.Ct. 223, 3 L.Ed.2d 148 (1958).

[20] Architectural plans and kitchen layout and design drawings may be trade secrets.¹³ See e.g. *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 278 (Tex. App.--Houston [1st Dist.] 1988, no writ) (blueprints, drawings, and customer lists constitute trade secrets); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901-02 (Tex. Civ. App.--Houston [1st Dist.] 1978, writ *ref'd n.r.e.*) (drawings of assembly-line layout and design entitled to trade secret protection); *Ecolaire Inc. v. Crissman*, 542 F.Supp. 196, 206 (E.D. Pa. 1982) (drawings, blueprints, and lists constitute trade

secrets because such information could be obtained, through other than improper means, only with difficulty and delay).

[21] The issue thus becomes whether sufficient and continuous secrecy attached to these particular plans and drawings to preserve their status as trade secrets.

The owner of the secret must do something to protect himself. He will lose his secret by its disclosure unless it is done in some manner by which he creates a duty and places it on the other party not to further disclose or use it in violation of that duty.

¹³ Two Pesos denies the confidential status of the architectural plans and kitchen design, but significantly defines licensed "confidential information" in its own franchise agreement to include "drawings, materials, equipment, specifications, techniques" and so forth.

Furr's Inc. v. United Specialty Advertising Co., 385 S.W.2d 456, 459 (Tex. Civ. App.--El Paso 1964, writ ref'd n.r.e.), cert. denied, 382 U.S. 824, 86 S.Ct. 59, 15 L.Ed.2d 71 (1965); see also *Carson Products Co. v. Califano*, 594 F.2d 453, 461 (5th Cir. 1979) (however strong other indicia of trade secret status may be, subject matter must be secret, such that acquiring information would be difficult except by improper means).

The jury concluded that Two Pesos had misappropriated Taco Cabana's trade secrets, and we must review that conclusion constrained by our generous deference to jury findings. Under a less deferential standard of review, our decision might differ, but considering the evidence "in the light and with all reasonable inferences most favorable" to Taco Cabana, we cannot say that "the facts and inferences

point so strongly and overwhelmingly in favor of [Two Pesos] that the Court believes that reasonable [persons] could not arrive at a contrary verdict." *Boeing Co. v. Shipman*, 411 F.2d 365, 374 (5th Cir. 1969) (en banc), cited in *Molex Inc. v. Nolen*, 759 F.2d 474, 478-79 (5th Cir. 1985) (trade-secret jury trial).

The jury could reasonably view the disclosures adduced by Two Pesos as limited and therefore insufficient to extinguish the secrecy of the materials. If a voluntary disclosure occurs in a context that would not ordinarily occasion public exposure, and in a manner that does not carelessly exceed the imperatives of a beneficial transaction, then the disclosure is properly limited and the requisite secrecy retained. *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1200 (5th Cir. 1986) (finding no surrender of

secrecy where disclosures were not public announcements and secrets divulged only to businesses with whom plaintiff dealt with expectation of profit). Thus the disclosure of Taco Cabana plans to contractors did not extinguish their secrecy.¹⁴

[22] Similarly, only a

limited disclosure was shown by the fact that a paralegal for Two Pesos' trial counsel obtained the architectural plans from a municipality under the Texas Open Records Act. TEX. REV. CIV. STAT. ANN. art. 6252-17a (Vernon Supp. 1991).¹⁵ The fact that Taco Cabana was required to file the plans

14. See also *International Election Systems Corp. v. Shoup*, 452 F.Supp. 684, 707-08 (E.D. Pa. 1978) (technical drawings and blueprints qualified as trade secrets despite their unrestricted transfer to certain companies and employees' free access to such records), *aff'd without op.*, 595 F.2d 1212 (3d Cir. 1979); cf. *Nucor Corp. v. Tennessee Forging Steel Service, Inc.*, 476 F.2d 386, 390 (8th Cir. 1973) (distribution of plans to potential contractors and subcontractors, even though not marked confidential and not required to be returned, does not constitute general publication for purposes of common law copyright).

15 Section 3(a)(10) creates an exception to disclosure for "trade secrets and commercial or financial information obtained from a person and privileged or confidential by statute or judicial decision." See, e.g., Tex. Att'y Gen. ORD-554 (1990) (semiconductor manufacturer with verified interest in secrecy stated valid trade secret exemption for plan design and layout).

and to obtain a building permit does not eviscerate its legitimate proprietary rights.¹⁶ Cf.

Ashworth v. Glover, 20 Utah 2d 85, 89-90, 433 P.2d 315, 319 (1967) (architect suing for conversion of restaurant construction plans did not sur-render common law proprietary rights in plans by distributing copies to contractors or by filing copy with city). The district court correctly instructed the jury that "[f]iling of architectural plans with a city does not make them public

information within the context of secrecy that relates to the law of trade secrets.¹⁷

Joseph Friesenhahn, Felix Stehling's former partner, was a prospective associate in the Two Pesos venture until McDermott and Blacketer decided to go forward without his services. Friesenhahn testified in his deposition that McDermott (one of Two Pesos' founders) offered him \$25,000 for a set of the plans. McDermott fervently denied making this offer,

and Friesenhahn's deposition testimony did flip-flop on this issue because of a peculiar memory lapse in the first deposition. But it is the jury's province to determine weight and credibility. "Secrecy is a relative term. The information may be known to several persons and yet still be secret if third parties would be willing to pay for a breach of trust in order to ascertain it." *A.H. Emery Co. v. Marcan Products Corp.*, 268 F.Supp. 289, 299 (S.D.N.Y.

1967) (holding that drawings and blueprints of a machine are trade secrets), *aff'd*, 389 F.2d 11 (2d Cir.), *cert. denied*, 393 U.S. 835, 89 S.Ct. 109, 21 L.Ed.2d 106 (1968).

The jury heard further that upon failing the Friesenhahn ploy, McDermott and Blacketer obtained a set of the plans from Joe Kaplan, a lighting designer. Kaplan testified in his deposition that he had borrowed a set of plans from Rene DeBacker, an

¹⁶ The paralegal obtained the plans in August of 1987 by telling the city clerk of Leon Valley that she needed copies for a lawsuit. Blacketer testified that he obtained a set of Taco Cabana architectural drawings from Kaplan over two years earlier in April of 1985. Thus the acquisition from Leon Valley, even if lawful, does not bear on the outcome of this case. "The fact that a trade secret is of such a nature that it can be discovered by experimentation or other fair and lawful means does not deprive its owner of the right to protection from those who would secure possession of it by unfair means." *Weed Eater*, 562 S.W.2d at 901.

¹⁷ Given the inevitable conflict between public and private information under laws that vigorously and necessarily champion

both, we do not intend herein to signal a significant shift in either direction. The delicate balance remains undisturbed. But if the wide public dissemination we prize disgorges properly confidential information, we need not thereafter baptize its unfair exploitation. We neither alter nor add to either body of law to recognize that bare availability of information does not end the fact-sensitive inquiry into whether it was nevertheless misappropriated. Cf. *Edgar H. Wood Associates, Inc. v. Skene*, 347 Mass. 351, 363, 197 N.E.2d 886, 894 (1964) ("It is not the purpose of the filing requirement to facilitate and permit architectural plagiarism, or enable one to obtain free of charge the benefit of another's work and thus to reap where it has not sown.")

electrical estimator for Vollmer Electrical Company. Kaplan said he wanted to study the plans and recommend better lighting arrangements, though he later admitted that he never looked at the plans. He copied the plans without telling anyone, and the next day "brought the [original] plans back and put them back on the table where [he] found them."

DeBacker testified that he considers such plans confidential, that he would always consult Vollmer before considering a request for copies of plans, and that neither Kaplan nor anyone else ever asked him for a set of the plans. Ferdinand Vollmer likewise testified that his company treats all architectural plans as proprietary and confidential, that Kaplan never asked him for a set of Taco Cabana plans, that he would not have given him a set even had Kaplan asked, and

that he thinks Kaplan stole the plans.

We need not detail the various reasonable inferences--some subtle and some unsavory--to acknowledge that one view of the evidence would not inculcate Two Pesos; another view would. The jury properly assumed its function of assigning weight and credibility to the various accusations and denials, of which the foregoing is a representative glimpse. The jury's conclusion rests on adequate evidence, and we decline to disturb the verdict.

[23] Finally, Two Pesos does not seriously dispute that it used the plans, and ample evidence supports this conclusion.

III. Remedies

The jury awarded \$306,000 for lost profits, \$628,300 for lost income,

and nothing for loss of good will. For the trade secret misappropriation, the jury awarded \$15,000.¹⁸

Finding intentional and deliberate infringement, the district court doubled the damages to \$1,868,600 for the trade dress infringement, and awarded attorneys' fees of \$937,550. The court further ordered Two Pesos to make several changes in the design of its Texas restaurants, and to dispel customer confusion by displaying a prominent sign for a year acknowledging that Two Pesos had unfairly copied Taco Cabana's restaurant concept.

Taco Cabana claims injury, under the so-called "headstart" theory, from Two Pesos' preemption of the Houston market and other areas. According to Two Pesos, the jury based damages on an initial franchise fee of \$10,000 per store and continuing royalty of 1% (which is substantially below what Taco Cabana or Two Pesos requires of actual franchisees). The lost profits calculation apparently assumes a foreclosure a five restaurants in the Houston area at a 6% profits margin on sales of \$1.7 million per store with an incremental fixed overhead of \$204,000. The jury heard abundant

18. In its jury instructions on damages, the district court carefully addressed the separate elements of damages--the value of the trade secret, and the loss of profits, income and good will from the trade dress infringement--but without indicating that these categories could overlap. Two Pesos thoroughly briefed the issue of damages, but raised no point of error as to possible duplication in the award, and we do not address it.

evidence on the foregoing remedies, including detailed damage models yielding totals substantially exceeding the jury's award.

A. Trade - Dress Infringement Remedies.

[24] Circuits that have addressed the issue uniformly apply the Lanham Act remedies of section 35 to violations of section 43(a). See *NuPulse, Inc. v. Schlueter Co.*, 853 F.2d 545, 548, 550 (7th Cir. 1988) (citing cases).¹⁹

Section 35 provides that a prevailing plaintiff may,

subject to the principles of equity . . . recover (1) defendant's profits, (2) any damages sustained by the plaintiff,

and (3) the costs of the action. . . . In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. Such sum . . . shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

15 U.S.C.A. § 1117(a) (West Supp. 1991). *Taco Cabana's* recovery may include "the economic benefits they normally would have received by licensing." *Boston Professional Hockey Ass'n v. Dallas Cap &*

Emblem Mfg., Inc., 597 F.2d 71, 75 (5th Cir. 1979).

B. Injunctive Relief.

[25, 26] *Two Pesos* weakly contests the requirements of structural changes and corrective and advertising, calling them punitive instead of compensary. "In fashioning relief against a party who had transgressed the governing legal standards, a court of equity is free to proscribe activities that, standing alone, would have been unassailable."

Kentucky Fried, 549 F.2d at 390; see also *Chevron*, 659 F.2d at 705 (defendant required to distance itself from plaintiff's trade dress, even if requirement involves a competitive handicap not suffered by others); *Frisch's Restaurants, Inc. v. Elby's Big Boy, Inc.*, 670 F.2d 642, 650-51 (6th Cir.) (affirming district court's requirements of corrective advertising), cert. denied, 459 U.S. 916,

103 S. Ct. 231, 74 L.Ed.2d 182 (1982).

C. Profits and Damages.

[27] *Two Pesos* argues that a monetary award requires evidence of actual confusion, and that only diverted sales provide a proper measure of damages. We disagree, as we did in *Boston Professional Hockey*, 597 F.2d at 75-76 (plaintiff's failure to quantify any damages from diverted sales did not preclude recovery for deprivation of economic benefits that would have accrued from licensing); see also *Shen Mfg. Co. v. Suncrest Mills, Inc.*, 673 F.Supp. 1199, 1206 (S.D.N.Y. 1987) (defendant's intentional copying entitles plaintiff to profits based on unjust enrichment theory despite failure to prove any instance of actual confusion). Because we embrace the "headstart" theory as the apt framework for monetary

19. Congress codified this resounding support for consistent remedies by enacting the Trademark Law Revision Act on November 16, 1988 which, inter alia, amended section 35 to include section 43(a) violations. 15 U.S.C.A. § 1117(a) (West Supp. 1991).

recovery, we need not pursue the issue of actual diverted sales.

Especially given the volatility of the restaurant industry, and the significant value of securing the image of "market leader," we believe the "headstart" theory provides an apt framework for Taco Cabana's monetary recovery. Two Pesos' infringement foreclosed the Houston market, which Gabriel Gelb characterized as "one of the most affluent Mexican food markets in the country." Based on the Houston market alone, Gelb estimated lost profits of \$4.4 million. Other damage models produced even higher figures. The jury awarded easily qualifies as reasonable compensation to Taco Cabana.

D. Enhanced Damages.

Finding that Two Pesos' conduct was willful and

deliberate, the district court doubled the jury award for infringement. Judge Singleton asserted that "[u]nder the facts of this case and listening to the witnesses and judging the credibility myself, I can come to no other conclusion than to find that Two Pesos actions were willful in the sense that it was deliberate. . . . The evidence was overwhelming." Intentional imitation alone --as opposed to intentional infringement-- would not suffice for the requisite bad faith, but as his Order recites, Judge Singleton found "that Two Pesos intentionally and deliberately infringed Taco Cabana's trade dress."

[28, 29] We must respect the fact that section 35 endows the district court with considerable discretion in fashioning an appropriate remedy for infringement. An enhancement of damages may be based on a finding of willful infringement,

but cannot be punitive. *Playboy Enterprises, Inc. v. P.K. Sorren Export Co.*, 546 F.Supp. 987, 998 (S.D. Fla. 1982); see 15 U.S.C.A. § 1117(a) (West Supp. 1991) (any sum in excess of actual damages must "constitute compensation and not a penalty").

[30] It is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found "compensatory," must be "compensatory" and not "punitive." Responding to that anomaly, we have suggested that enhancement could, consistent with the "principles of equity" promoted in section 35, provide proper redress to an otherwise under compensated plaintiff where imprecise damage calculations fail to do justice,

particularly where the imprecision results from defendant's conduct. *Boston Professional Hockey*, 597 F.2d at 77 (increased damages justified when defendant withholds or misrepresents available sales records or otherwise obstructs ascertainment of damages); accord *P.K. Sorren*, 546 F.Supp. at 998-99 (award of excess damages appropriate where "record strongly indicates that plaintiff's damages and defendants' profits were both greater than the amounts conclusively proven."). We find no evidence of information obstruction by Two Pesos, but we acknowledge the trial court's superior capacity to discern the elements of equitable compensation. Given the substantial evidence of willful infringement,²⁰ the jury finding of

20. The weight of the evidence persuades us, as it did Judge Singleton, that Two Pesos brazenly copied Taco Cabana's

trade secret misappropriation, and the evidence of substantial damages not

reflected in the jury award, we cannot say that Judge Singleton abused his discretion.

E. Attorney Fees.

[31] Section 35 of the Lanham Act permits an award of attorney's fees in "exceptional cases." The judicial definition of an exceptional case often

appears indistinguishable from the standard for enhancement of damages: some form of willful, deliberate, or fraudulent conduct. Indeed, Taco Cabana invites us to apply the same standard, employ the same evidence, and affirm on that basis. We decline to conflate the standards because some cases may well warrant one form of recovery and not the other,²¹ and we do not wish so to regiment the

successful trade dress, and proceeded to expand in a manner that foreclosed several lucrative markets within Taco Cabana's natural zone of expansion. Cf. *Weiner King, Inc. v. Wiener King Corp.*, 615 F.2d 512, 522 (C.C.P.A. 1980) (junior user's knowledge of senior user coupled with attempt to box in senior user by cutting off expansion can support finding of bad faith in registration hearing).

21. See, e.g., *Playboy Enterprises, Inc. v. Bacarat Clothing Co.*, 692 F.2d 1272, 1276 (9th Cir. 1982) (affirming district court's refusal to enhance damages, but reversing refusal to award attorneys' fees).

discretion of district court seeking equity.

[32] We review for abuse of discretion, mindful that "the district court heard the evidence, saw the witnesses, and appraised their motives. Based on its personal observations, the court found that [defendant's] conduct was 'certainly intentional' and designed to reduce [plaintiff's] sales." *Nu-Pulse*, 853 F.2d at 547 (affirming award fees); see also *Shen Mfg.*, 673 F.Supp. at 1207 (defendant's intentional copying makes case "exceptional" and entitles plaintiff to punitive damages and attorneys' fees). Some conscious good-faith effort by Two Pesos to create elements of dissimilarity might have rendered this case "unexceptional." *Roulo v.*

Russ Berrie & Co., 886 F.2d 931, 942 (7th Cir. 1989), cert. denied, -- U.S. --, 110 S.Ct. 1124, 107 L.Ed.2d 1030 (1990). But Two Pesos earns no such saving grace. Given the evidence of brazen imitation and rapid market foreclosure, we find no abuse of discretion in the award of attorneys' fees.²²

F. Trade-Secret Damages.

[33, 34] Trade-secret misappropriation damages typically embrace some form of royalty. *Metallurgical*, 790 F.2d at 1208 ("reasonable royalty" aptly defines measure of damages in trade secret misappropriation case); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 737 (5th Cir.) (affirming award of damages that represented reasonable per

22. The parties stipulated that attorneys' fees of \$937,500 were reasonable if the district court could properly award fees.

unit royalty), *cert. denied*,
458 U.S. 1108, 102 S.Ct.
3488, 73 L.Ed.2d 1369
(1982). With the evidence
of sales in the scores of
millions and impressive
profits, the jury's single
award of \$150,000 is not
unreasonable.

The judgment of the
district court is
AFFIRMED.

Appendix B

**IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION**

TACO CABANA INTERNATIONAL, INC.	\$	
and TACO CABANA, INC.,	\$	
PLAINTIFF,	\$	
	\$	
VS.	\$	C.A. NO.
	\$	H-87-0026
TWO PESOS, INC.,	\$	
DEFENDANT.	\$	

ORDER

Pursuant to Rule 58 of the Federal Rules of Civil Procedure, it is hereby:

ORDERED, ADJUDGED and DECREED that the Jury's October 26, 1988, Special Verdict awarding \$150,000 to Taco Cabana for Two Pesos' misappropriation of its trade secrets and \$934,300 to Taco Cabana for Two Pesos' infringement of Taco Cabana's trade dress is entered this date. It is further

ORDERED, ADJUDGED and DECREED that having determined from the testimony of the witnesses and from the evidence presented during the trial that Two Pesos intentionally

and deliberately infringed Taco Cabana's trade dress, Taco Cabana is awarded damages of \$1,868,600 for trade dress infringement along with the \$150,000 for trade secret misappropriation. The total damage award is \$2,018,600. It is further

ORDERED, ADJUDGED and DECREED that all the following changes be made to all Two Pesos' restaurant in operation in Texas as of the date of this Final Judgment:

(1) Exterior - Install a step-up or other roofline structure which eliminates the "step-down" effect between the two box silhouette structures as well as the drive-through roofline (make all roof elevations of the same height).

(2) Exterior - Eliminate the stripes around the top of the building and use only white neon lighting if any neon lighting is used.

(3) Exterior - Change to a solid color awning by painting existing awnings or replacing them with solid color awnings.

(4) Exterior - Install at least three false or painted windows on the exterior side walls of the restaurants or,

alternatively, use the trade dress of Two Pesos' Phoenix store on the side walls of the restaurants.

(5) Interior - Paint the front face of the pickup counter and both sides of the wall between the interior dining and the interior patio white or the grey/green color used in the Two Pesos Tidwell Street restaurant in Houston. It is further

ORDERED, ADJUDGED and DECREED that Two Pesos display a sign both on the interior and exterior of all Two Pesos restaurants which states the following:

NOTICE

TACO CABANA originated a restaurant concept which Two Pesos was found to have unfairly copied. A Court Order requires us to display this sign to inform our customers of this fact to eliminate the likelihood of confusion between our restaurants and those of TACO CABANA.

These signs shall have one inch black letters on a white background. The exterior sign shall be prominently placed in the area of the customer's entrance and the interior sign shall

be prominently placed in the ordering area. Both signs shall be in place in all Two Pesos restaurants within 30 days of this Final Judgment and shall remain in place for at least one year. It is further

ORDERED, ADJUDGED and DECREED that all of the above changes be completed within eighteen months on Two Pesos' restaurants in operation in Texas as of the date of the Final Judgment and that all of the above changes be completed on existing Two Pesos' restaurants in Texas at the rate of at least ten restaurants per six months beginning with the Houston Two Pesos' restaurants. It is further

ORDERED, ADJUDGED and DECREED that with respect to any Two Pesos' restaurants which are not yet in operation as of the date of this Final Judgment and, before any such stores commence operation, that all of the changes (1) through (5) above be made in addition to all of the following changes:

(7) Exterior - Make the outside doors flush with the exterior walls or with an exterior projecting rectangular vestibule.

(8) Exterior - Eliminate garage doors on two of the three sides between inside and outside patios. This permits an exterior patio opening fully on the side where the garage doors are located. The side having the garage doors is optional. As an alternative to the elimination of the garage doors, design the interior patio in a shape other than a square or rectangle, such as circular, elliptical or the like (see, e.g., the shape of the Sombrero Rosa inside patio).

(9) Interior - Eliminate the oblique order counter and install it parallel to or at right angles to the sides of the building. It is further

ORDERED, ADJUDGED and DECREED that the Defendant shall report in writing to the Court the progress of all the changes ordered to existing restaurants on a quarterly basis until all such changes to Defendant's company and

franchise restaurants in operation in Texas as of the date of this Final Judgment have been completed. It is further

ORDERED, ADJUDGED and DECREED that having determined that this case is exceptional, in view of the deliberate infringement and misappropriation of Taco Cabana's trade dress by Defendant Two Pesos, Plaintiffs are awarded their attorney's fees in the prosecution of their trade dress claims and in defense of Defendant's dismissed counterclaims, the amount of such attorney's fees to be determined at a hearing set for January 23 1989, at 9:30 a.m. at Courtroom No. 6. 515 Rusk, Houston, Texas.

Signed this 30th day of December, 1988, at Houston, Texas.

/s/ John V. Singleton
UNITED STATES DISTRICT

JUDGE

Appendix C

**IN THE UNITED STATES COURT OF
APPEALS FOR THE FIFTH CIRCUIT**

No. 89-2203

TACO CABANA INTERNATIONAL, INC.,

Plaintiff-Appellee

versus

TWO PESOS, INC.,

Defendant-Appellant.

Appeal from the United States District Court
for the Southern District of Texas

**ON PETITION FOR REHEARING AND
SUGGESTION FOR REHEARING EN BANC**

(Opinion June 11, 5 Cir. 1991 __F.2d__)
(July 22, 1991)

Before REAVLEY, GARWOOD and BARKSDALE, Circuit Judges.

PER CURIAM:

(✓) The Petition for Rehearing is DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is DENIED.

() The Petition for Rehearing is DENIED and the Court having been polled at the request of one of the members of the Court and a majority of the Circuit Judges who are in regular active service not having voted in favor of it, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is also DENIED.

() A member of the Court in active service having requested a poll on the reconsideration of this cause en banc, and a majority of the judges in active service not having voted in favor of it, rehearing en banc is DENIED.

ENTERED FOR THE COURT:

/s/
United States Circuit Judge

Appendix D

List of Entities Related to or affiliated With Corporate Parties.

There are no entities related or affiliated with the parties.

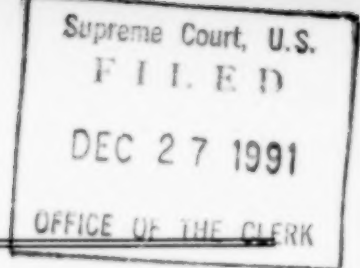
Certificate of Service

The undersigned counsel of record for Petitioner certifies that he is a member of the Bar of this Court and that to his knowledge, on October 18, 1991, within the permitted time, three copies of the Petition for a Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit were served upon counsel for Respondents by mail, first-class postage prepaid, in Phoenix, Arizona, addressed as follows:

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/s/ Kimball J. Corson
Counsel of Record

(2)
No. 91-971



In The
Supreme Court of the United States
October Term, 1991

TWO PESOS, INC.,

Petitioner,

v.

TACO CABANA INTERNATIONAL, INC., and
TACO CABANA, INC.,

Respondents.

**Petition For Writ Of Certiorari
To The United States Court Of Appeals
For The Fifth Circuit**

RESPONDENTS' BRIEF IN OPPOSITION

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Date: December 27, 1991

QUESTIONS PRESENTED

Following a jury trial, the District Court entered judgment finding that Two Pesos' restaurants infringed Taco Cabana's trade dress. The Court of Appeals for the Fifth Circuit affirmed the District Court's decision in all regards. Petitioner's framing of the questions are argumentative. Respondents submit that the questions before the Court are more properly framed as follows:

1. May an inherently distinctive trade dress be protected without a showing of secondary meaning?
2. Is a trade dress composed of an arbitrary combination of elements protectible as a whole even when several elements may also serve functional purposes?

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STATEMENT OF THE CASE

Respondents, Taco Cabana International, Inc. and Taco Cabana, Inc. (collectively "Taco Cabana") opened their first fast-food restaurant in San Antonio, Texas in September 1978. Subsequent restaurants were opened beginning in 1983 and, at the time of trial, Taco Cabana had 16 restaurants, in different cities in Texas. Each Taco Cabana restaurant has a distinctive trade dress which was described by the Court of Appeals as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1117 (5th Cir. 1991).

Two Pesos misappropriated Taco Cabana's trade dress and opened its first restaurant in Houston, Texas in December 1985. Taco Cabana filed suit against Two Pesos in the United States District Court for the Southern District of Texas, Houston Division, in January 1987, alleging trade dress infringement under 15 U.S.C. § 1125(a) and state common law trade secret misappropriation.

The case was tried to a jury which found (a) Taco Cabana had a trade dress; (b) Taco Cabana's trade dress, taken as a whole, was non-functional; and (c) Taco Cabana's trade dress was inherently distinctive. 932 F.2d

at 1117. The jury also found that Taco Cabana's trade dress had not acquired a secondary meaning in the Texas market. *Id.* The jury awarded Taco Cabana \$306,000 in lost profits and \$628,300 in lost income on its trade dress infringement claim. The jury also awarded \$150,000 in damages on Taco Cabana's trade secret claim. The district court entered a finding of willful infringement and doubled the trade dress damages to \$1,868,600 and awarded Taco Cabana attorney's fees in the amount of \$937,550.¹ *Id.*

Two Pesos appealed to the United States Court of Appeals for the Fifth Circuit, raising a number of issues on appeal, two of which are presented as questions to this Court. Two Pesos argued that the jury's finding of an inherently distinctive trade dress was inconsistent with its finding that Taco Cabana's trade dress had not acquired secondary meaning in Texas. The Court of Appeals rejected Two Pesos' argument. *Taco Cabana*, 932 F.2d at 1120 n.7.

Two Pesos also argued that the district court's instruction to the jury on distinctiveness was erroneous, as it failed to properly address the issue of *inherence* in its instruction. *Taco Cabana*, 932 F.2d at 1120. However, the Court of Appeals held that "the instruction as a whole properly guided the jury as to the elements of inherent distinctiveness." *Taco Cabana*, 932 F.2d at 1120.

¹ The parties stipulated to the amount of reasonable attorney's fees to be awarded if the district court could properly award attorney's fees.

With respect to the question of functionality, Two Pesos argued that Taco Cabana's own witnesses had admitted that the only items which were non-functional in its trade dress were the plants and the decor. The district court recognized that Two Pesos was attempting to confuse the jury as to the differences between *lay* functionality and *legal* functionality in the trade dress sense and cautioned Two Pesos' counsel on this matter. On appeal, the Fifth Circuit characterized Two Pesos' argument as "a fallacious syllogism: (1) functional elements do not enjoy protection; (2) Taco Cabana's trade dress includes functional elements; (3) therefore Taco Cabana's trade dress does not enjoy protection." 932 F.2d at 1119. The Court of Appeals stated that an arbitrary combination of functional features was protectable even where the combination is related to performing a function. *Id.* The Court of Appeals held that the district court's instruction on functionality did not mislead the jury or prejudice Petitioner, noting evidence of alternative combinations of elements which could be used to compete effectively. *Id.*

REASONS FOR DENYING THE PETITION FOR CERTIORARI

Respondents' cause of action for trade dress infringement was brought under § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). In passing the Lanham Act, it was Congress' intent to simplify trademark practice and establish uniformity within this branch of the law of unfair competition. Protection of registered and unregistered trademarks are subject to the same analysis under the Lanham

Act. One principle of trademark law is that an inherently distinctive mark – one which is arbitrary, fanciful or suggestive – is protectable without a showing of secondary meaning.

Petitioner asks the Court to create an exception to this principle for trade dress protection under the Lanham Act and states two reasons for creating this exception. First, the Fifth Circuit Court of Appeals was incorrect in holding that a showing of secondary meaning was not required where Respondents' trade dress was found to be inherently distinctive. Second, protection of trade dress without a showing of secondary meaning has a chilling effect on business though it is not argued that trademark protection has this effect.

Petitioner incorrectly states that the remaining circuit courts of appeals require a showing of secondary meaning for an inherently distinctive trade dress. The Fifth Circuit's analysis has been adopted by an increasing number of the circuits. In fact, only one circuit court of appeals follows the view urged by Petitioner.

Protection of an inherently distinctive trade dress without a showing of secondary meaning would not have the chilling effect on business claimed by Petitioner, any more than it does where unregistered trademarks are involved. Requiring such a showing for an inherently distinctive trade dress would permit a second comer to freely steal an otherwise protectable trade dress, so long as no secondary meaning has been specifically found.

Petitioner also argues that protection of a trade dress composed of various design elements, some of which also

serve a function, would result in the creation of a monopoly over the individual elements. Further, Petitioner argues that this protection would improperly encroach upon established patent law. However, Petitioner ignores the established body of case law which deals with the issue of functionality and protection of trade dress. The case law makes clear that the doctrine of functionality was created to prevent the very evil claimed by Petitioner.

The questions presented by Petitioner do not require the Court's attention. For these reasons and those set forth below, Respondents respectfully request that the Court deny Petitioner's request for certiorari.

I.

SECONDARY MEANING IS NOT REQUIRED WHERE A TRADE DRESS IS FOUND TO BE INHERENTLY DISTINCTIVE

Petitioner states that the rule in the Fifth Circuit "permits generic, descriptive Mexican decor, consisting primarily of functional features, to be an 'inherently distinctive' and, therefore, protectable trade dress such that secondary meaning – which the jury found lacking – need not be shown." Pet. Brief at 7.² Petitioner argues that this

² Petitioner misstates the jury's findings – it did not find Taco Cabana's trade dress to be generic or descriptive. As the Court of Appeals noted, "no one contends that Taco Cabana's trade dress is generic." *Taco Cabana*, 932 F.2d at 1120 n.8.

rule goes against the holdings of five other circuit courts and leads to uncertainty in the marketplace which would "chill legitimate competitive activity."³ Pet. Brief at 7. Petitioner is incorrect and its competitive activity is not legitimate.

A careful review of the law of the circuits finds that, where the courts have directly addressed the issue of whether an inherently distinctive trade dress is protectable in the absence of secondary meaning, the majority of the courts have held that secondary meaning is not required. Trademark law holds that the requirements of inherent distinctiveness and secondary meaning are mutually exclusive. To hold otherwise would effectively create a federal common law with respect to trade dress at odds with the stated purposes of the Lanham Act. The effect of this rule does not have a chilling effect on legitimate competition since the evidence showed there were numerous legitimate competitors in the marketplace.

A. Contrary To Petitioner's Assertions, the Majority of the Circuits Do Not Expressly Require Secondary Meaning for Trade Dress Protection

Petitioner argues that the Fifth Circuit rule – showing of secondary meaning not required where a trade dress is

³ Two Pesos fails to note that in view of the evidence and testimony, the district court found and the Court of Appeals agreed that Two Pesos intentionally, deliberately and willfully attempted to copy Taco Cabana's trade dress. *Taco Cabana*, 932 F.2d at 1127.

found to be inherently distinctive – is an "aberrational rule" that stands trade dress protection analysis on its head. Pet. Brief at 9. Petitioner states that "the Second, Third, Sixth, Eighth and Ninth Circuits require that a trade dress have secondary meaning before it will be protectable." Pet. Brief at 8. An analysis of the case law, however, demonstrates that Petitioner's assertion is incorrect.

1. The Third, Fourth, Fifth, Seventh and Eleventh Circuits Have Held No Showing of Secondary Meaning is Required for Inherently Distinctive Trade Dress

Petitioner claims that the Third Circuit requires that secondary meaning must be shown in a trade dress before it is protectable, citing *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136 (3d Cir. 1986). In the *American Greetings* case, plaintiff *did not argue* that the "Care Bears" were inherently distinctive, only that they had acquired secondary meaning. *Id.* at 1139. Thus, the Third Circuit did not address this issue in *American Greetings* as alleged by Petitioner.

In *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 291 (3d Cir.), *cert. denied*, 1991 U.S. LEXIS 6412 (1991), the Third Circuit stated "[w]here a mark has not been federally registered or has not achieved incontestability, validity depends on proof of secondary meaning, *unless* the unregistered or contestable mark is inherently distinctive." (Emphasis added). The Third Circuit recognized that secondary meaning analysis was not required where an unregistered mark is inherently distinctive, i.e.,

arbitrary, fanciful or suggestive, and *specifically recognized* that "container shapes, and designs and pictures may also be classed as 'fanciful'." 930 F.2d at 292 n.18. The Third Circuit held that the secondary meaning analysis was to be required only of marks and trade dress which were held to be merely descriptive. It was not required for marks found to be inherently distinctive. *Id.*

The Fourth Circuit has not expressly spoken on this issue, but the district courts in the Fourth Circuit have uniformly held that secondary meaning is required only *in the absence* of inherent distinctiveness. In *CBS, Inc. v. Logical Games, Inc.*, 220 U.S.P.Q. 434, 436 (E.D. Va. 1982), *aff'd*, 719 F.2d 1237 (4th Cir. 1983), the district court stated "whether secondary meaning is a necessary element for ownership depends on whether the trade dress is inherently distinctive." *See also, Philip Morris, Inc. v. MidWest Tobacco, Inc.*, 9 U.S.P.Q.2d 1210, 1213 (E.D. Va. 1988) ["Trade dress will be protected *either* "if [it is] inherently distinctive *or* [has] acquired secondary meaning to the general buying public." (Emphasis added), citing *Selchow & Righter Co. v. Decipher, Inc.*, 598 F. Supp. 1489, 1495 (E.D. Va. 1984)].

The commentators recognize that the Fifth Circuit was the first Court of Appeals to require either inherent distinctiveness or secondary meaning for a trade dress to be protectable:

The [Fifth Circuit] court held that trade dress would be categorized *in the same way* as all other trade symbols: either inherently distinctive or non-inherently distinctive. (Footnote omitted). If the former, distinctiveness or secondary meaning is not necessary. If the latter, distinctiveness

through the acquisition of secondary meaning must be proven. . . . (Bracketed material and emphasis added).

J. McCarthy, *Trademarks and Unfair Competition*, § 8:2 at 287 (2d ed. 1984), citing, *Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 702 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982) (hereinafter "McCarthy").⁴

The Fifth Circuit has been consistent in the application of this rule which considers trade dress as part of the larger class of trade designators. The reasoning behind this rule was set forth in *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 426 n.7 (5th Cir. 1984):

In this circuit, sufficiently distinctive trade dress, upon use in the market, is presumed to serve as an identifier of source without proof of secondary meaning. (Citations omitted). The reasons for requiring proof of secondary meaning are particularly diminished when applied to distinctive packaging. First, such trade dress generally does not begin with a "primary meaning" that must be surpassed by secondary meaning for that dress to serve as a sign of source. (Citation omitted). Unlike a product's configuration, which may acquire trademark value over time and by exposure to consumers, arbitrary

⁴ Professor McCarthy notes in his 1990 Supplement to his treatise that an increasing number of courts agree with his discussion of the *Chevron* case, including the Seventh and Eleventh Circuits, while other Circuit Courts, such as the Ninth have left it an open question. *McCarthy*, § 8:2 (Supplement 1990).

and nonutilitarian trade dress or packaging usually is designed to act immediately as an identifier of source. (Citations omitted).

Further, a finding of inherent distinctiveness raises an irrebuttable presumption that a trade dress has achieved customer recognition and association promptly upon use. *McCarthy*, § 15:1 at 656. Case law within the Fifth Circuit has continued to follow this rule. See *Taco Cabana, supra*; *Allied Mktg. Group, Inc. v. CDL Mktg., Inc.*, 878 F.2d 806, 813 (5th Cir. 1989).

The Seventh Circuit likewise does not require a finding of secondary meaning where a trade dress has been held to be inherently distinctive. In *Schwinn Bicycle Co. v. Ross Bicycles, Inc.*, 870 F.2d 1176 (7th Cir. 1989), the Seventh Circuit stated the "manufacturer . . . must establish either that its trade dress has acquired secondary meaning (footnote omitted) or that its trade dress has added a distinctive, identifying mark." (Citation omitted, emphasis in original). See also *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 936 (7th Cir. 1989), cert. denied, 493 U.S. 1075 (1990).

The Eleventh Circuit also follows the rule that a trade dress may be protectable upon a showing of inherent distinctiveness or secondary meaning. *Ambrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1536 (11th Cir. 1986) ("[b]ecause we hold that the district court's finding with respect to inherent distinctiveness is not clearly erroneous, we need not address the secondary meaning issue.") See also, *Bauer Lamp Co. v. Shaffer*, 941 F.2d 1165, 1171 (11th Cir. 1991) (in a § 43(a) trade dress action plaintiff must prove distinctiveness or secondary meaning); *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821, 831 (11th Cir.

1982) (adopting *Chevron* as persuasive, though not required to under *Bonner v. City of Prichard, Ala.*, 661 F.2d 1206, 1209 n.5 (11th Cir. 1981)).

2. The First, Sixth, Eighth, Ninth, Tenth and D.C. Circuits Have Not Expressly Decided the Issue of Whether an Inherently Distinctive Trade Dress is Separately Protectable

Petitioner fails to analyze the case law properly to determine whether these circuits require a finding of secondary meaning where a trade dress is found to be inherently distinctive. The First Circuit has not directly addressed the issue of whether a showing of secondary meaning is required for an inherently distinctive trade dress. In *Keebler Co. v. Rovira Biscuit Corp.*, 624 F.2d 366, 378 (1st Cir. 1980), it stated that secondary meaning must be shown. However, the court did not consider whether plaintiff's trade dress, a cylinder, could be inherently distinctive. Thus, the First Circuit has not directly addressed the issue.

The case cited by Petitioner in the Sixth Circuit (*Kwik-Site Corp. v. Clear View Mfg. Co.*, 758 F.2d 167, 178 (6th Cir. 1985), citing *Litton Sys., Inc. v. Whirlpool Corp.*, 728 F.2d 1423, 1444-45 (Fed. Cir. 1984)) held that a finding of secondary meaning is required for protection of trade dress. However, the *Kwik-Site* case fails to discuss whether a showing of secondary meaning is required where a trade dress is found to be inherently distinctive. In the recent *Ferrari s.p.a. Esercizio Fabbriche Automobili E Corse v. Roberts*, ___ F.2d ___, 20 U.S.P.Q.2d 1001, 1006 (6th Cir. 1991) decision, the Sixth Circuit held:

Ferrari's vehicles would not acquire secondary meaning merely because they are unique designs or because they are aesthetically beautiful. The design must be one that is *instantly identified in the mind of the informed viewer as a Ferrari design*. (Emphasis added).

This instant identification of a design with its source is the definition of *inherent distinctiveness*. See, *Sicilia*, 732 F.2d at 426 n.7 (immediate identifier of source); *McCarthy*, § 11:2 at 435. Thus, while the Sixth Circuit did not directly address the issue, it recognized in *dicta* that inherent distinctiveness could occur. However, the Court did not go on to state whether a showing of secondary meaning is required for an inherently distinctive trade dress. While several district court cases have discussed a need for a showing of secondary meaning for protection of trade dress [see, *Someday Baby, Inc. v. JTG of Nashville, Inc.*, 744 F. Supp. 811 (M.D. Tenn. 1990); *Schreiber Mfg. Co. v. Saft America, Inc.*, 704 F. Supp. 759, 768 (E.D. Mich. 1989) (citing *Kwik-Site*)], at least one district court in the Sixth Circuit held that secondary meaning is not required where the trade dress is arbitrary (therefore inherently distinctive). *Sun Prods. Group, Inc. v. B&E Sales Co.*, 700 F. Supp. 366, 380 (E.D. Mich. 1988), citing *Chevron*. Petitioner's contention that the Sixth Circuit absolutely requires secondary meaning is not supported by the variance in the cases within the circuit.

Nor has the Eighth Circuit expressly addressed the question of whether a showing of secondary meaning is required for a trade dress found to be inherently distinctive. In *Prufrock Ltd. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986), the Eighth Circuit stated that trade dress protection

could be obtained where the trade dress was non-functional and had acquired a secondary meaning, citing *Truck Equip. Serv. Co. v. Freuhauf Corp.* (hereafter *TESCO*), 536 F.2d 1210 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976) and *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966 (11th Cir. 1983). The court in *Prufrock* did not consider whether the trade dress was inherently distinctive.

In *TESCO*, the district court *did not* consider whether the truck design was inherently distinctive and the Eighth Circuit did not address the issue. In *John H. Harland*, the Eleventh Circuit noted with approval that a showing of secondary meaning *was not required* where a trade dress was inherently distinctive. If anything, the *Prufrock* court relied on a case which is inconsistent with the position urged by Petitioner. Subsequent cases have suggested that secondary meaning may be required. See, e.g., *Woodsmith Publishing Co. v. Meredith Corp.*, 904 F.2d 1244, 1247 (8th Cir. 1990); *Rally's, Inc. v. International Shortstop, Inc.*, 19 U.S.P.Q.2d 1206 (E.D. Ark. 1990). However, only one case has directly addressed the issue. In *Animal Fair, Inc. v. Amfesco Indus., Inc.*, 620 F. Supp. 175, 190 (D. Minn. 1985), *aff'd*, 794 F.2d 678 (8th Cir. 1986), the district court stated that secondary meaning is unnecessary where a product's exterior dress is inherently distinctive. The Eighth Circuit affirmed without opinion which left the district court's reasoning intact.

Additionally, Petitioner fails to properly analyze the case law in the Ninth Circuit. Petitioner cites *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1381 (9th Cir. 1987) for the proposition that secondary meaning is required for trade dress protection. However, in *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 843 (9th Cir. 1987), the

Ninth Circuit stated, "We need not, in any event, decide whether it is ever appropriate to protect an inherently distinctive trade dress without proof of secondary meaning."⁵ Indeed, the Ninth Circuit still holds this to be an open question. See *Vision Sports, Inc. v. Melville Corp.*, 888 F.2d 609, 615-16 n.8 (9th Cir. 1989) ("we do not reach Vision's alternative argument that the VSW logo is inherently distinctive and therefore may be protected without a showing of secondary meaning" citing *Fuddruckers* as leaving open the question of whether an inherently distinctive trade dress may be protected without secondary meaning).

Whether an inherently distinctive trade dress must also have secondary meaning remains an open question in the Tenth Circuit as well. In *Brunswick Corp. v. Spinit Reel Co.*, 832 F.2d 513, 517 (10th Cir. 1987), the Tenth Circuit stated that "[g]enerally, to be eligible for protection, the product's 'trade dress' must be nonfunctional and have acquired a secondary meaning." The Tenth Circuit went on in a lengthy footnote, 832 F.2d at 517 n.2, to recognize that other cases have held that secondary meaning is not required where a trade dress is inherently distinctive, noting that the Tenth Circuit had previously suggested that a finding of inherent distinctiveness was sufficient in *J.M. Huber Corp. v. Lowery Wellheads, Inc.*, 778 F.2d 1467, 1470 (10th Cir. 1985). The Tenth Circuit

⁵ The Ninth Circuit stated if the "trade dress is inherently distinctive, the further requirement of a showing of secondary meaning should be superfluous." (Emphasis in original). *Fuddruckers*, 826 F.2d at 843. Thus, a finding of inherent distinctiveness would automatically entitle a trade dress to protection. However, the Ninth Circuit declined to decide this issue.

declined to address the issue as defendant had not challenged the district court's finding that the fishing reel trade dress at issue had secondary meaning.

The D.C. Circuit likewise has never directly addressed whether an inherently distinctive trade dress may be protected without a showing of secondary meaning. While the D.C. Court of Appeals in *Reader's Digest Ass'n, Inc. v. Conservative Digest, Inc.*, 821 F.2d 800, 803 (D.C. Cir. 1987) held that secondary meaning was required for trade dress protection, it did not discuss (nor has any D.C. district court) whether secondary meaning would be required for an inherently distinctive trade dress.

3. The Second Circuit Is the ONLY Circuit Which Expressly Requires a Showing of Secondary Meaning for an Inherently Distinctive or Arbitrary Trade Dress

Only the Second Circuit has held that arbitrary, and therefore inherently distinctive, designs require a showing of secondary meaning. *Murphy v. Provident Mut. Life Ins. Co.*, 923 F.2d 923 (2d Cir. 1990), cert. denied, ___ U.S. ___, 60 U.S.L.W. 3258 (1991)⁶; *Stormy Clime Ltd. v. Pro-Group, Inc.*, 809 F.2d 971, 974 (2d Cir. 1987).

⁶ Petitioner Murphy argued one reason for granting writ of certiorari was that his design was suggestive, and therefore inherently distinctive, and did not require a showing of secondary meaning. The Court declined to grant certiorari on this basis.

Petitioner's analysis of the law of the circuits is simply inaccurate. The Fifth Circuit has not pulled "the ship of trademark and unfair competition law loose from its moorings" as Petitioner suggests. Pet. Brief at 7. Rather, the Fifth Circuit established a rule which "brought trade dress cases into the *mainstream of trademark law*." (Emphasis added). *McCarthy*, § 8:2 at 287. This rule has been followed by all but one of the circuits that have directly addressed the issue.

B. The Principles Relating to Distinctiveness of a Trademark Apply Equally to the Protection of Trade Dress

Petitioner cites the Court's decision in *Park 'N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1985) regarding generic and descriptive marks and argues that it is nearly impossible for restaurant trade dresses to be inherently distinctive. Pet. Brief at 10-12. However, Petitioner fails to explain why a trade dress cannot be inherently distinctive or should be analyzed under a different set of rules. As noted by the Eleventh Circuit in *Rickard v. Auto Publisher, Inc.*, 735 F.2d 450, 457-58 (11th Cir. 1984) in its discussion of whether remedies under § 35 of the Lanham Act should apply to unregistered trademark actions brought under § 43(a), it was Congress' intent to simplify trademark practice and establish uniformity. To require an inherently distinctive trade dress to have acquired secondary meaning goes against the established rules of trademark law and would undercut Congressional intent on uniformity.

1. A Mark or Dress Found to be Inherently Distinctive by Its Very Nature Need Not Show Secondary Meaning

a. The Spectrum of Trademark Distinctiveness

A trademark may be defined as a sign, device or mark by which the articles produced or provided by a source are distinguished from those produced or provided by another. *McCarthy*, § 3:2, at 105 n.1. Part of this identification process includes the product's or service's packaging or "trade dress." Trademarks are customarily grouped into four categories: (1) generic, (2) descriptive, (3) suggestive, and (4) arbitrary or fanciful. *Soweco, Inc. v. Shell Oil Co.*, 617 F.2d 1178, 1183 (5th Cir. 1980), *cert. denied*, 450 U.S. 981 (1981). *See also, Taco Cabana*, 932 F.2d at 1120 n.8; *Miller Brewing Co. v. G. Heileman Brewing Co.*, 561 F.2d 75, 79 (7th Cir. 1977), *cert. denied*, 434 U.S. 1025 (1978); *Freedom Savs. & Loan Ass'n v. Way*, 757 F.2d 1176, 1182-83 n.5 (11th Cir.), *cert. denied*, 474 U.S. 845 (1985).

As the Court noted in *Park 'N Fly*, 469 U.S. at 194, a generic term is not registrable or protectible. One which is "merely descriptive" of the qualities of goods or services may be protected only upon a showing of secondary meaning. *Id.* A fanciful mark is one which is "coined" to serve as a trademark. *McCarthy*, § 11:2 at 436. An arbitrary mark is a word symbol or picture which has a common usage, but which when used with the goods or services, neither describes nor suggests the ingredients, quality or characteristics of the goods or services. *McCarthy* § 11:4 at 439. A suggestive mark is one which suggests rather than describes a particular characteristic of the goods or services to which it is applied and requires some

amount of imagination by the consumer to draw a conclusion as to the nature of the goods or services. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 790 (5th Cir. 1983). Arbitrary, fanciful and suggestive marks are grouped in a larger class of marks known as "inherently distinctive" marks. *McCarthy*, § 11:2 at 435. It is well established that inherently distinctive marks are protectible and registrable when first used without the need to show secondary meaning. *Id.*; *Soweco*, 617 F.2d at 1184. The Fifth Circuit, and other circuits, have applied the very same analysis to trade dress. *Sicilia*, 732 F.2d at 425 n.3. *Bauer Lamp*, 941 F.2d at 1170 (Eleventh Circuit); *Roulo*, 886 F.2d at 931 (Seventh Circuit).

Petitioner argues that the principles of trademark distinctiveness should not apply to trade dress and alludes to the fact that the registration of a mark necessarily involves a determination of the distinctiveness of a mark – something not done in the case of a trade dress – and the hazards it presents a legitimate business competitor. However, Petitioner ignores the fact that the Lanham Act was intended to simplify trademark practice and extend uniform protection to unregistered marks. *Rickard*, 735 F.2d at 457-58. The distinctiveness analysis for unregistered marks is the same used for registered marks. Thus, a legitimate business competitor would face the same problems when confronted with an unregistered trademark. Further, the courts have held that trade dress itself effectively serves the same purpose as an unregistered mark. *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604, 608 (7th Cir. 1986) ("there is probably no substantive legal difference between these terms [trade dress and trademark] . . . ") (bracketed material added). It

follows then that the rules used to determine the distinctiveness of a registered mark are likewise applicable to unregistered marks and trade dress.

b. Trade Dress, Including Restaurant Trade Dress, is Capable of Being Inherently Distinctive

As Professor McCarthy notes, an inherently distinctive mark is one which is capable of serving as an indicator of source immediately upon use. *McCarthy*, § 15:1 at 656. It likewise follows that an inherently distinctive trade dress is one which indicates the source of the goods or services as opposed to the product itself. Contrary to Petitioner's assertion, Professor McCarthy did not state that *all* trade dresses are weak and require secondary meaning. Pet. Brief at 9. Professor McCarthy notes that trade dress can be inherently distinctive and does not require a showing of secondary meaning. *McCarthy*, § 8:2 at 287 (2d ed. 1984 & Supp. 1990). On the other hand, Petitioner argues that trade dress cannot be inherently distinctive.⁷ Pet. Brief at 11-12.

The district court instructed the jury on distinctiveness as follows:

⁷ Petitioner's argument is undercut by the fact that Petitioner's own franchise agreement describes Two Pesos' restaurant trade dress as "certain *distinctive and identifying* restaurant layout and design features, including *distinctive* building design, decor, accessories and fixtures and other identifying trade dress in the interior and exterior of its Restaurants, which features . . . are collectively referred to herein as 'Trade Dress'" (emphasis added). *Taco Cabana*, 932 F.2d at 1118 n.5.

Distinctiveness is a term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants and is *not descriptive and not functional*, then you should find that Taco Cabana's trade dress is inherently distinctive. (Emphasis added).

Taco Cabana, 932 F.2d at 1120.

The jury's categorization of Respondents' trade dress as inherently distinctive is an issue of fact and is subject to review under the clearly erroneous standard of Fed. R. Civ. P. 52. *Zatarains*, 698 F.2d at 793. The Court of Appeals did not disturb the jury's verdict.

Petitioner ignores this finding and proceeds to attempt to analyze Respondents' trade dress as if it were descriptive and must show secondary meaning. As noted by another commentator, "[b]y definition, the concepts of 'distinctiveness' and 'descriptiveness/genericness' are mutually exclusive." 3 L. Altman, R. Callmann, *The Law of Unfair Competition, Trademarks and Monopolies*, § 18.01 n.4 (4th ed. 1983) (hereinafter *Callmann*). The reason is simple: a distinctive trade dress serves automatically as an indicator of source and does not have a primary meaning which must be overcome by a secondary meaning to indicate source. *Sicilia*, 732 F.2d at 426 n.7.

Petitioner argues that "trade dresses do not ordinarily possess a primary meaning, but that does not necessarily mean they are arbitrary and fanciful and therefore protectable as inherently distinctive." Pet. Brief at 11. Nonetheless, Petitioner argues that Respondents'

restaurant trade dress is one of those rare trade dresses which has a primary meaning – that it is a Mexican restaurant serving Mexican food. Respondents' trade dress was described by the Court of Appeals as a "festive eating atmosphere. . . ." which included bright colors, border paint and neon stripes, umbrellas and artifacts but Respondents' trade dress *was not limited* to Mexican artifacts. *Taco Cabana*, 932 F.2d at 1117.

Petitioner complains that the instruction on distinctiveness failed to adequately instruct the jury on the concept of inherency or the immediate ability to distinguish Respondents' goods or services from others. The Court of Appeals noted that the district court could have achieved greater clarity by separately instructing the jury on the issue of inherent distinctiveness but noted that "[a] distinctive trade dress that is neither descriptive nor functional is *ipso facto* inherently distinctive." (Emphasis in original) *Taco Cabana*, 932 F.2d at 1120. See also, *Sicilia*, 732 F.2d at 425 n.3 ("a trade dress feature is distinctive if it is arbitrary or fanciful, and not descriptive or functional.") The Court of Appeals found that "the instruction as a whole properly guided the jury as to the elements of inherent distinctiveness." *Taco Cabana*, 932 F.2d at 1120. See also, *Middleton v. Harris Press and Shear, Inc.*, 796 F.2d 747, 749 (5th Cir. 1986).

The jury found Respondents' trade dress to be inherently distinctive and thus it did not require a finding of secondary meaning. As noted in *Callmann* § 18.01 n.4, a finding of *both* inherent distinctiveness and secondary meaning would be unnecessary as they are mutually exclusive terms.

c. Petitioner's "Public Policy" Arguments are Not Supported by the Cited Case Law

Petitioner makes a prospective argument that public policy would best be served by requiring secondary meaning for trade dress in all instances. However, Petitioner fails to state why the Court should depart from a common trademark/trade dress approach. Petitioner argues that the "better view" would be to hold that a trade dress is not protectible in the absence of secondary meaning, citing *Fuddruckers*. As noted above and in Petitioner's own brief, the Ninth Circuit in *Fuddruckers* stated that "If . . . its claimed trade dress is *inherently distinctive*, the further requirement of a showing of secondary meaning should be superfluous." (Emphasis in original). *Fuddruckers*, 826 F.2d at 843. At the very least, the question of whether an inherently distinctive trade dress must show secondary meaning remains open in the Ninth Circuit. *Vision Sports*, 888 F.2d at 615-16 n.8.

Nor is Petitioner's reliance on *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 109 S.Ct. 971 (1989) persuasive. In *Bonito Boats*, this Court recognized that an unpatented design may be protected under § 43(a) of the Lanham Act. 109 S.Ct. at 985. Petitioner argues that, given the lack of secondary meaning, Respondents' trade dress does not protect consumers against confusion as to source. The jury found that Respondents' trade dress served as an indicator of source by finding it inherently distinctive. Further, Respondents presented evidence to the jury as to the likelihood of confusion as to source. *Taco Cabana*, 932 F.2d at 1122. This is the very type of confusion that trademark law is intended to prohibit.

Only the Second Circuit has expressly stated that an inherently distinctive trade dress must also show secondary meaning. The Third, Fourth, Fifth, Seventh and Eleventh Circuits have directly addressed the issue and have held that a showing of secondary meaning is not required. The First, Sixth, Eighth, Tenth and D.C. Circuits have not directly addressed this question. There does not exist a wide difference of opinion in the Court of Appeals warranting the grant of certiorari on this question.

II.

ARBITRARY COMBINATIONS OF ELEMENTS ARE PROTECTIBLE AS TRADE DRESS

Petitioner describes functionality as "an aberrational doctrine" having its sole application in trade dress law. Pet. Brief at 20. While functionality is not generally applied in trademark law, it can hardly be considered an aberration. The doctrine of functionality exists to limit trade dress protection and maintain a balance between patent and trademark law. The granting of exclusive rights to "functional" features is the domain of patent law. *Vaughn Mfg. Co. v. Brikam Int'l, Inc.*, 814 F.2d 346, 349 (7th Cir. 1987). In trade dress terms, a feature is "functional" where it is *dictated by the function* that the relevant product or trade dress is intended to serve. Ultimately, the inquiry of functionality goes to the issue of whether the granting of trade dress protection to a feature or combination of features would unduly hinder competition. *Sicilia*, 732 F.2d at 429-30.

Petitioner argues that Respondents' witnesses admitted that the trade dress was composed of "functional

elements." As noted above, Petitioner's own counsel admitted that he was talking about functionality in the *lay sense* rather than the legal sense. The distinction between lay and legal functionality was recognized by the Court of Customs and Patent Appeals in *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332, 1337 (C.C.P.A. 1982), when it held that an element may be functional in a lay sense and still be protectible as an indicator of source. Accordingly, the witnesses' statements should be of no import. Nonetheless, Petitioner argues that each of these elements was functional in a legal sense and therefore non-protectible. Accordingly, arbitrary combinations of these elements, each of which serves a function, cannot be protected as it would have the effect of granting unlimited protection to those individual features. Pet. Brief at 15-16. This argument was made to the district court and the Court of Appeals and was rejected by both. *Taco Cabana*, 932 F.2d at 1119.

Petitioner's argument that an arbitrary combination of functional elements is not protectible simply is not supported by the case law. The district court properly instructed the jury that functionality should be judged in terms of the *overall trade dress*. *Taco Cabana*, 932 F.2d at 1119. Nor does protection of the combination of elements, even if each serves a function, result in a monopoly on each of the elements in Respondents' trade dress. As the Ninth Circuit noted in *Fuddruckers*:

Viewing the elements as a whole does not result in monopoly protection for necessary elements. If Fuddruckers were to get protection for its trade dress, which includes such items as directors chairs, white tile, and an open bakery, it

could not preclude other restaurants from using those items. It can only prevent competitors from using the items in a way that, viewed as a whole, is likely to confuse consumers. There are many ways to use directors chairs, white tile, open bakeries, and the many other items that make up Fuddruckers' trade dress that would not cause confusion.

Fuddruckers, 826 F.2d at 842 n.7.

Granting protection to Respondents' trade dress which is comprised of various elements, some of which serve a function, does not result in a monopoly on the elements themselves. The courts of appeals have universally recognized that trade dress protection may be granted to combinations which may include functional elements. As noted by the Third Circuit in *American Greetings*, 807 F.2d at 1143:

We agree with the district court that one may have a protectible interest in a combination of features or elements that includes one or more functional features. (Citations omitted). *Indeed, virtually every product is a combination of functional and non-functional features and a rule denying protection to any combination of features including a functional one would emasculate the law of trade dress infringement.* (Emphasis added).

Accord, *Stormy Clime*, 809 F.2d at 975 (Second Circuit); *Vaughn Mfg.*, 814 F.2d at 350 (Seventh Circuit).

Petitioner cites *Bonito Boats* arguing that granting protection for a combination of functional elements will improperly encroach upon patent law. However, the Court in *Bonito Boats* recognized that trade dress protection was considered an exception to the design patent

laws where consumer confusion would result from copying. *Bonito Boats*, 109 S.Ct. at 981. It is the arbitrary combination and the manner in which they are combined which must be judged in terms of functionality. The evidence presented at trial clearly shows that other restaurants, which compete successfully in the same market niche and utilize a number of the same elements in different combinations, do not cause confusion with Respondents' protectible trade dress. *Taco Cabana*, 932 F.2d at 1119. Respondents' combination of elements is clearly not one which would hinder *legitimate competition*.

Petitioner also states that other intellectual property law does not permit the protection of a combination of elements which are individually non-protectible. This is a gross misstatement of the law. This Court in *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, ___ U.S. ___, 111 S.Ct. 1282, 1291 (1991), made it clear that while facts and ideas are themselves unprotectible, compilations which meet the requirement of originality are protectible. Likewise, a combination of known elements which results in a new use or application and meets the statutory requirements may be granted a patent. See *Grain Processing Corp. v. American Maize-Prods. Co.*, 840 F.2d 902, 907 (Fed. Cir. 1988) ("[T]he inquiry is not whether each element existed in the prior art, but whether the prior art made obvious the invention as a whole for which patentability is claimed."). Disclaimer practice in trademark law also permits the protection of a composite mark where one or more of the terms in the mark would not, by itself, be entitled to protection. 15 U.S.C. § 1056.

The jury found that Taco Cabana's trade dress, taken as a whole, was non-functional. Petitioner's argument

that Respondents' arbitrary combination of elements, some or even all of which serve a function, is not protectible trade dress is not supported by case law or by analogy to other areas of intellectual property law.

III.

TRADE DRESS PROTECTION UNDER THE LANHAM ACT IS AN ESTABLISHED AREA OF LAW WHICH DOES NOT PRESENT THE DANGER TO PATENT PROTECTION CLAIMED BY PETITIONER

The jury in this case found Respondents' trade dress to be inherently distinctive and protectible under the law of the Fifth Circuit. As noted above, all but one of the circuits which have directly addressed the issue have held that secondary meaning is not required for an inherently distinctive trade dress. Indeed, the concepts of inherent distinctiveness and secondary meaning are mutually exclusive. *Callmann*, § 18.01 n.4.

The jury found Respondents' trade dress as a whole to be non-functional. The Court of Appeals' affirmation of the district court's judgment is not an "ill-considered revision" of the doctrine of functionality. As set forth above, the Fifth Circuit applied the doctrine of functionality in a manner consistent with other precedents in the trademark field.

It is argued that a would-be competitor would be unable to determine whether a trade dress may be freely copied by checking with the Patent and Trademark Office; however, this argument is a *non sequitur*. The competitor may commission a trademark search which will uncover federally registered marks and unregistered

uses that may create problems. However, it does not advise the competitor of how close one may come to a registered mark before a registrant or earlier unregistered user will complain of infringement. Trade dresses are generally not registered but that does not render them any less protectible. Registration is not the *sine qua non* of trademark and unfair competition law as the existence of § 43(a) demonstrates.

Lastly, Petitioner requests that the Court further define those areas of interface between patent protection and trade dress protection. The federal courts in applying § 43(a) to trade dress cases have created the doctrine of functionality which precludes the granting of protection to individual or combinations of features found to be functional. Its purpose is to maintain the balance between patent and trademark law by denying protection where such a grant would have the effect of unduly hindering competition by granting protection. *Sicilia*, 732 F.2d at 429-30.

Trade dress protection does not present the threat to patent protection that Petitioner asserts in an effort to insulate its intentional misconduct from legal redress. The Fifth Circuit below struck the right balance.

IV.

CONCLUSION

The Court of Appeals' decision was a proper application of the law of trade dress and all of the other circuits that have taken up the issue agree with the exception of the Second Circuit. The questions raised by Petitioner do

not require the Court's attention. Accordingly, Respondents respectfully request that the Court deny Petitioner's request for certiorari.

Respectfully submitted,

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Date: December 27, 1991

No. 91-971

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

v.

TACO CABANA INTERNATIONAL, INC., *et al.*,*Respondents.*

On Writ of Certiorari to the United States
Court of Appeals for the Fifth Circuit

JOINT APPENDIX**Volume I**

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PETITION FOR CERTIORARI FILED OCTOBER 18, 1991
CERTIORARI GRANTED JANUARY 27, 1992

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**TACO CABANA INTERNATIONAL,
INC., Plaintiff-Appellee,**

v.

**TWO PESOS, INC.,
Defendant-Appellant.**

No. 89-2203.

**United States Court of Appeals
Fifth Circuit.**

June 11, 1991.

Action was brought for trade dress infringement and misappropriation of trade secrets in defendant's imitation of appearance and motif of plaintiff's Mexican restaurants. The United States District Court for the Southern District of Texas, John V. Singleton, Jr., J., entered judgment for plaintiff and defendant appealed. The Court of Appeals, Reavley, Circuit Judge, held that: (1) the embodiment of descriptive elements in trade dress did not disqualify it for inherent distinctiveness; (2) license of trade dress to another group of restaurants did not result in abandonment where licensor exercised adequate supervision and control over quality of licensee's goods and services; and (3) filing of architectural plans in order to obtain building permit did not eviscerate proprietary rights in trade secrets.

Affirmed.

1. Trade Regulation

Trade dress infringement is established by showing that: the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and that the dress has been infringed, which requires considering the likelihood of confusion. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

2. Trade Regulation

The "trade dress" of a product is essentially its total image and overall appearance. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

3. Trade Regulation

Competitor can use elements of merchant's trade dress, but merchant can protect combination of visual elements that, taken together, may create distinctive visual impression. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

4. Trade Regulation

Entrant into the Mexican fast-food market could not copy competitor's distinctive combination of layout and design features. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

5. Trade Regulation

While functional features cannot be given trade dress protection, a particular arbitrary combination of functional features, the

combination of which is not itself functional, properly enjoys protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

6. Trade Regulation

Finding of functionality can be found if protecting trade dress threatens to eliminate substantial swath of competitive alternatives in relevant market; design should be considered de jure functional if it is the best or one of the few superior designs available. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

7. Trade Regulation

Instruction in action for trade dress infringement with respect to Mexican restaurants that trade dress protection is denied where the particular combination "must be used by others in order to compete" did not mislead jury or prejudice defendant, where jury heard substantial evidence of alternative combinations that could be used to compete effectively, and record contained ample evidence that plaintiff's trade dress was, taken as a whole, nonfunctional. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A § 1051 et seq.

8. Trade Regulation

If mark or dress serves as symbol of origin it is considered distinctive and protectable, but if it is not deemed inherently or sufficiently distinctive, secondary meaning must be established. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

9. Trade Regulation

Instruction in action for infringement of trade dress sufficiently guided jury as to elements of inherent distinctiveness of plaintiff's dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

10. Trade Regulation

Infringement of trade dress for Mexican restaurant by competitor warranted redress even if plaintiff's trade dress was merely suggestive and weak. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

11. Trade Regulation

Trade dress for Mexican restaurant did not surrender possibility of inherent distinctiveness merely by embodying certain descriptive elements. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

12. Trade Regulation

A "naked license" to use the same trade dress signals involuntary abandonment and forfeits protection. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

13. Trade Regulation

Owner may license its trademark or trade dress and retain proprietary rights if owner maintains adequate control over quality of goods and services that licensee sells with the mark or

dress. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

14. Trade Regulation

Cross-license by which two brothers divided Mexican restaurants, one brother retaining the original name and the other adopting a new name, and allowing the two groups to use the same trade dress, did not result in forfeiture of protection of trade dress where the licensor exercised adequate supervision and control over licensee to ensure that quality of licensee's goods and services were not inferior to licensor's. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

15. Trade Regulation

Where circumstances of cross-license of trade dress for Mexican restaurants insured consistent quality, abandonment of trade dress would not be found simply for want of inspection and control formalities. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

16. Trade Regulation

Indicia of confusion in trade dress infringement action include type of trade dress at issue, similarity between trade dresses, similarity of products or services provided, whether plaintiff and defendant were in market competition for same customers, whether plaintiff and defendant were likely to use same advertising media, defendant's intent in its adoption of its trade dress, and instances of actual confusion; no single factor is necessarily dispositive and proof of actual confusion is not necessary. Lanham

Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

17. Trade Regulation

Appropriation of trade dress of Mexican restaurants by competitor created likelihood of confusion between unrelated entities and constituted unfair competition. Lanham Trade-Mark Act, § 1 et seq., as amended, 15 U.S.C.A. § 1051 et seq.

18. Torts

Trade secret misappropriation in Texas requires existence of trade secret, breach of confidential relationship or improper discovery of trade secret, use of trade secret, and damages.

19. Torts

A "trade secret" under Texas law is any formula, pattern, device or compilation of information used in one's business, and which gives opportunity to obtain advantage over competitors who do not know or use it.

20. Torts

Architectural plans and kitchen layout and design drawings for restaurant may be trade secrets under Texas law.

21. Torts

Mexican restaurant's architectural plans and kitchen equipment layout and design did not lose status as trade secrets, under Texas law, by reason of disclosure of restaurant plans to contrac-

tors or by fact that competitor obtained architectural plans from municipality under the Texas Open Records Act. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

22. Torts

Fact that Mexican restaurant was required to file architectural plans to obtain building permit did not eviscerate its legitimate proprietary rights in the plans as trade secrets under Texas law. Vernon's Ann. Texas Civ. St. arts. 6252-17a, 6252-17a, § 3(a)(10).

23. Torts

Evidence supported conclusion that Mexican restaurant appropriated trade secrets by using architectural plans of competitor in building its restaurants.

24. Trade Regulation

Recovery for infringement of trade dress may include economic benefits that normally would have been received by licensing. Lanham Trade-Mark Act §§ 35, 35(a), 43(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a), 1143(a).

25. Injunction

In fashioning relief against a party who has transgressed governing legal standards, court of equity is free to proscribe activities that, standing alone, would have been unassailable.

26. Trade Regulation

Remedy in action for infringement of trade dress for Mexican restaurant and for appropriation of trade secrets, requiring structural changes and corrective advertising, were not improperly punitive rather than compensatory. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

27. Trade Regulation

The "headstart" theory was appropriate framework for remedy for infringement of trade dress for Mexican restaurants by competitor that preempted various markets, and entitled plaintiff to recover for deprivation of benefits that would not accrued from licensing without proof of actual confusion or quantification of damages from diverted sales. Lanham Trade-Mark Act, § 35, 35(a), 43(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a), 1143(a).

28. Trade Regulation

The Lanham Act endows district court with considerable discretion in fashioning appropriate remedy for infringement. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

29. Trade Regulation

Enhancement of damages for trade dress infringement may be based on finding of willful infringement, but cannot be punitive. Lanham Trade-Mark Act, § 35(a), as amended, 15 U.S.C.A. § 1117(a).

30. Trade Regulation

Doubling of jury award for infringement of trade dress, upon finding that infringer's conduct was willful and deliberate, was not abuse of discretion. Lanham Trade-Mark Act, §§ 35, 35(a), as amended, 15 U.S.C.A. §§ 1117, 1117(a).

31. Trade Regulation

In reviewing award of attorney fees under the Lanham Act provision for fees in "exceptional case," court would not regiment discretion of district courts seeking equity by applying the same standard for enhancement of damages. Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

32. Trade Regulation

Award of attorney fees in action for infringement of trade dress for Mexican restaurants, involving brazen imitation and rapid market foreclosure, was not an abuse of discretion. Lanham Trade-Mark Act, § 35, as amended, 15 U.S.C.A. § 1117.

33. Damages

Trade-secret misappropriation damages typically embrace some form of royalty.

34. Damages

Award of \$150,000 for misappropriation of trade secrets of Mexican restaurants, involving sales in scores of millions and impressive profits, was not unreasonable.

Kimball J. Corson, Janet Napolitano, Lewis & Roca, Phoenix, Ariz., for defendant-appellant.

James B. Gambrell, Marc L. Delflache, Eugene R. Montalvo, Pravel, Gambrell, Hewitt, Kimball & Krieger, Houston, Tex., for plaintiff-appellee.

Appeal from the United States District Court for the Southern District of Texas.

Before REAVLEY, GARWOOD, and BARKSDALE, Circuit Judges.

REAVLEY, Circuit Judge:

Taco Cabana complained of the imitation of the appearance and motif of its Mexican restaurants by Two Pesos. Taco Cabana won a judgment for trade dress infringement under the Lanham Act and misappropriation of trade secrets under Texas law. Two Pesos appeals, claiming that Taco Cabana's trade dress is not protectable because the Mexican motif is not protectable, and that Taco Cabana surrendered any claim it had to Lanham Act protection by cross-licensing with another restaurant and retaining the same trade dress for two different restaurant names. Two Pesos also claims that it obtained the alleged trade secrets—architectural plans and kitchen equipment layout—in a lawful manner and cannot be guilty as a matter of law for trade secret misappropriation. We affirm.

BACKGROUND

Two brothers, Felix and Mike Stehling, opened the first Taco Cabana restaurant in San Antonio in September 1978, and opened five more restaurants in San Antonio by 1985. Taco Cabana describes its Mexican fast-food trade dress as:

a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.

In December 1985, Marno McDermott and Jim Blacketer opened Two Pesos in Houston. Two Pesos adopted a motif essentially consistent with the above description of Taco Cabana's trade dress,¹ and expanded rapidly in Houston and other markets in and out of Texas,² but did not enter San Antonio. In 1987, Taco Cabana sued Two Pesos for trade dress infringement under section 43(a) of the Lanham Act and for theft of trade secrets under Texas common law.

¹ Phil Romano, a restaurateur since 1965 who developed the successful Fuddruckers chain, testified that Taco Cabana and Two Pesos are "shaped the same. They look the same. When you're inside they feel the same. They have the same product."

² Between December 1985 and August 1988, Two Pesos opened 29 restaurants.

Six days before filing suit against Two Pesos, the Stehling brothers entered into a series of agreements dividing the Taco Cabana restaurants between themselves and going their separate ways. Felix Stehling retained the "Taco Cabana" name, and Michael Stehling adopted the name "TaCasita." The agreements allowed the two groups to use the same trade dress, though one provision required "reasonable efforts to modify their trade dress for their respective future restaurants sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind." The Stehlings have not altered their respective trade dresses. After filing suit, Taco Cabana expanded into several cities, including Houston and Dallas where Two Pesos was already doing business.

The jury found that: (1) Taco Cabana has a trade dress; (2) Taco Cabana's dress, taken as a whole, is non-functional; (3) the dress is inherently distinctive; (4) the dress has not acquired secondary meaning in the Texas market; (5) customers might likely associate or confuse a Taco Cabana restaurant with a Two Pesos restaurant; (6) Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's; and (7) Taco Cabana was damaged by the trade dress infringement. The jury awarded \$306,000 for lost profits, \$628,300 for lost income, and \$0 for loss of good will. The district court doubled the damages for trade dress infringement (bringing the total to \$1,868,600), awarded attorneys fees of \$937,550, and ordered Two Pesos to make several changes in its restaurant design.

Taco Cabana also claimed misappropriation of the following trade secrets: (1) certain architectural drawings; (2) its kitchen equipment layout and design; and (3) its kitchen and restaurant operating procedures. The jury found that Two Pesos misap-

propriated the architectural drawings and the kitchen equipment layout and design, but not the operating procedures. The jury awarded \$150,000 for the misappropriation. The district court entered judgment on the jury's verdict, and denied Two Pesos' motions for judgment n.o.v. and for a new trial. Two Pesos appeals.

DISCUSSION

I. Trade Dress Infringement

[1, 2] Trade dress infringement is established by showing that: (1) the dress qualifies for protection, which requires considering functionality, distinctiveness, and secondary meaning; and (2) that the dress has been infringed, which requires considering the likelihood of confusion. *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 425 (5th Cir. 1984).

A. The Threshold "Concept" Dispute.

The district court instructed the jury that:

"trade dress" is the total image of the business. Taco Cabana's trade dress may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniform and other features reflecting the total image of the restaurant.

See Blue Bell Bio-Medical v. Cin-Bad, Inc., 864 F.2d 1253, 1256 (5th Cir. 1989) ("The 'trade dress' of a product is essentially its total image and overall appearance.").

Two Pesos argues that protectable trade dress is much narrower than "total image." The combined effect, Two Pesos argues, of Taco Cabana's consistent reference to "concept" and the district court's "total image" instruction was to mislead the jury into believing that Taco Cabana had a right to preclude competitors from using a Mexican theme for a Mexican restaurant.³ Taco Cabana cannot preclude Two Pesos or anyone from entering the upscale Mexican fast-food market. But the jury was not misled into protecting such an abstract level of Taco Cabana's trade dress.

[3, 4] A competitor can use elements of Taco Cabana's trade dress,⁴ but Taco Cabana "can protect a combination of visual elements 'that, taken together, ... may create a distinctive visual impression.'" *Fuddrucker's, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 842-43 (9th Cir. 1987), quoting *Falcon Rice Mill v. Community Rice Mill*, 725 F.2d 336, 346 (5th Cir. 1984). Two Pesos may enter

³ See *Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129, 132 (8th Cir. 1986) ("[T]he district court committed error by including Prufrock's core concept in its definition of Prufrock's trade dress. Prufrock simply cannot preclude [defendant] from entering the 'down home country cooking' restaurant business.").

⁴ See *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 703 (5th Cir. Unit A 1981) (protecting "combination of particular hues of [plaintiff's] colors, arranged in certain geometric designs, presented in conjunction with a particular style of printing ... would leave innumerable other combinations of the same colors ..."), cert. denied, 457 U.S. 1126, 102 S.Ct. 2947, 73 L.Ed.2d 1342 (1982); cf. *No Nonsense Fashions, Inc. v. Consolidated Foods Corp.*, 226 U.S.P.Q. 502 (T.T.A.B. 1985) ("Sheer Elegance" for pantyhose is a suggestive mark, and registration will not prevent competitors from descriptive use of "sheer," "elegant," or "elegance"). But see *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1537 (11th Cir. 1986) (noting exception to general rule of totality when third party use of one or more elements of plaintiff's trade dress is so extensive and so similar to plaintiff's that it impairs ability of consumers to identify source), cert. denied, 481 U.S. 1041, 107 S.Ct. 1983, 95 L.Ed.2d 822 (1987).

the upscale Mexican fast-food market, but it may not copy Taco Cabana's distinctive combination of layout and design features.⁵ Two Pesos' imitation reflects not merely components of Taco Cabana's trade dress, but its distinctive integration of components. The instructions properly cautioned the jury not to focus on isolated components in determining the protectability of Taco Cabana's trade dress, but rather to consider the overall combination of elements.

B. The Elements of Protectability.

1. Functionality

The portions of the trial court's instructions disputed by Two Pesos appear in bold type:

The law allows the copying of functional features in the public interest of enhancing competition....

Even if the trade dress is made up of individual elements, **some of which serve a functional purpose**, the trade dress may be protectable so long as the combination of these individual elements which define Taco Cabana's trade dress

⁵ Two Pesos' own Franchise Agreement assumes the protectability of essentially that which it here asserts cannot be protected. That agreement defines trade dress as follows:

Franchisor employs certain distinctive and identifying restaurant layout and design features, including distinctive building design, decor, accessories and fixtures and other identifying trade dress in the interior and exterior of its Restaurants, which features ... are collectively referred to herein as "Trade Dress."

taken is arbitrary. On the other hand, if you find that Taco Cabana's trade dress taken as a whole must be used by others in order to compete in the Mexican fast-food restaurant business, then you should find that Plaintiff's trade dress is functional and not protectable.

[T]he inquiry into whether Taco Cabana's trade dress is functional or nonfunctional should not be addressed to whether individual elements fall within the definition, but whether the whole collection of elements taken together are functional or non-functional.

[5] Two Pesos' argument reduces to a fallacious syllogism: (1) functional elements do not enjoy protection; (2) Taco Cabana's trade dress includes functional elements; (3) therefore Taco Cabana's trade dress does not enjoy protection. Two Pesos correctly emphasizes that functional features cannot be protected, *Sno-Wizard Mfg., Inc. v. Eisemann Products Co.*, 791 F.2d 423, 425 n. 2 (5th Cir. 1986), but a particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection. See *Sicilia*, 732 F.2d at 425 (design may be distinctive and identifying even though also related to performing a function); *Chemlawn Services Corp. v. GNC Pumps, Inc.*, 690 F.Supp. 1560, 1571 (S.D.Tex. 1988) (exterior configuration of functional parts arbitrarily selected; not necessary to copy configuration of each part to effectuate functions). Taco Cabana does not seek protection for individual elements, but for a particular combination of elements which constitute trade dress as a whole. See *Sicilia*, 732 F.2d at 429.

With the doctrine of functionality, the law secures for the marketplace a latitude of competitive alternatives. See *Freddie Fuddrucker, Inc. v. Ridgeline, Inc.*, 589 F.Supp. 72, 77 (N.D. Tex.

1984) (policy predicate for functionality doctrine is public interest in enhancing competition), *aff'd without op.*, 783 F.2d 1062 (5th Cir. 1986); *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971, 977-78 (2d Cir. 1987) (functionality test critical to avoid upsetting patent law by indefinitely extending trade dress protection to an aggregation of elements that would otherwise enrich the public domain after expiration of design patent). "The need to avoid monopolization of a design lessens, however, in the area of distinctive trade dress. The wide range of available packaging and design options allows a producer to appropriate a distinctive identity without unduly hindering his competitors' ability to compete." *Sicilia*, 732 F.2d at 426 n. 7. Taco Cabana's particular integration of elements leaves a multitude of alternatives to the upscale Mexican fast-food industry that would not prove confusingly similar to Taco Cabana's trade dress.

[6, 7] Though the district court may have overstated the law to instruct the jury that protection is denied where the particular combination "must be used by others in order to compete,"⁶ under this record the instruction did not mislead the jury or prejudice Two Pesos. See *Smith v. Borg-Warner Corp.*, 626 F.2d 384, 387 (5th Cir. 1980) ("tolerably accurate, albeit incomplete, statement of the law" did not constitute reversible error where instruction, "viewed in its worst light, merely gave plaintiff an instruction on an issue for which there was no evidence"). The jury heard substantial evidence of alternative combinations that could

⁶ It should suffice for a finding of functionality if protecting the trade dress threatens to eliminate a substantial swath of competitive alternatives in the relevant market. "A design would be considered de jure functional if it is 'the best or one of a few superior designs available.'" *Sicilia*, 732 F.2d at 427 (emphasis added), quoting *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1341 (C.C.P.A. 1982).

be used to compete effectively, and the record contains ample evidence that Taco Cabana's trade dress is, taken as a whole, non-functional.

2. *Inherent Distinctiveness & Secondary Meaning.*

[8] "If a mark or dress serves as a symbol of origin it is considered distinctive and protectable. Unless a mark or dress is deemed 'inherently' or 'sufficiently' distinctive, however, secondary meaning must be established." *Sno-Wizard*, 791 F.2d at 425 n. 2.⁷ Arguing that simply "distinctive" trade dress is not enough, Two Pesos cites error in the district court's failure to address the quality of *inherence*. We find no reversible error.

[9, 10] The district court instructed the jury as follows:

Distinctiveness is a term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants and is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive.

⁷ Two Pesos' argument—that the jury finding of inherent distinctiveness contradicts its finding of no secondary meaning in the Texas market—ignores the law in this circuit. While the necessarily imperfect (and often prohibitively difficult) methods for assessing secondary meaning address the empirical question of current consumer association, the legal recognition of an inherently distinctive trademark or trade dress acknowledges the owner's legitimate proprietary interest in its unique and valuable informational device, regardless of whether substantial consumer association yet bestows the additional empirical protection of secondary meaning.

While the district court might have achieved greater semantic clarity by separately addressing distinctiveness and *inherent* distinctiveness, the instruction as a whole properly guided the jury as to the elements of inherent distinctiveness. A distinctive trade dress that is neither descriptive nor functional is *ipso facto* inherently distinctive.⁸

[11] Two Pesos argues that Taco Cabana's trade dress embodies descriptive elements, which should disqualify the dress for inherent distinctiveness. "A *descriptive* term 'identifies a characteristic or quality of an article or service' ... such as its color, odor, function, dimensions, or ingredients." *Zatarains Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 790 (5th Cir. 1983) (finding "Fish-Fri" descriptive and not protectable), quoting *Vision Center v. Opticks, Inc.*, 596 F.2d 111, 115 (5th Cir. 1979), *cert. denied*, 444 U.S. 1016, 100 S. Ct. 668, 62 L.Ed.2d 646 (1980).

⁸ As no one contends that Taco Cabana's trade dress is generic, the jury finding that the trade dress is not merely descriptive means that the dress is arbitrary, fanciful, or suggestive. We need not determine which of these three categories properly characterizes the trade dress, because all three entitle Taco Cabana to protection without proof of secondary meaning. A weak suggestive trade dress might narrow the *scope* of protection to competitors in the same product line, see *P.F. Cosmetique, S.A. v. Minneionka Inc.*, 605 F.Supp. 662, 668-69 (S.D.N.Y. 1985) (suggestive packaging, coupled with wide use of elements, is "weak mark," and thus protected against infringement only by competing products), but Taco Cabana and Two Pesos directly compete in the Mexican restaurant market, and Two Pesos' trade dress infringement therefore warrants redress even if Taco Cabana's trade dress is merely suggestive and weak. See *Sun Banks of Fla. v. Sun Fed Sav. & Loan Ass'n*, 651 F.2d 311, 315 (5th Cir. 1981) ("Although less distinctive than a fictitious, arbitrary or fanciful mark and therefore a comparatively weak mark, a suggestive mark will be protected without proof of secondary meaning.").

Taco Cabana's trade dress does not surrender the possibility of inherent distinctiveness merely by embodying certain descriptive elements. As with Two Pesos' flawed syllogism on functional elements, the existence of descriptive elements does not eliminate the possibility of inherent distinctiveness in the trade dress as a whole. "The whole, in trademark law, is often greater than the sum of its parts." *Association of Co-operative Members, Inc. v. Farmland Indus., Inc.*, 684 F.2d 1134, 1140 (5th Cir. 1982), cert. denied, 460 U.S. 1038, 103 S.Ct. 1428, 75 L.Ed.2d 788 (1983); see also 1 J. McCarthy, *TRADEMARKS AND UNFAIR COMPETITION* § 11:10 at 457 (2d ed. 1984) ("combination of two or more admittedly descriptive elements as a composite mark may result in a composite which is non-descriptive"; and quoting *Farmland Industries, supra*). Again, competitors may use individual elements in Taco Cabana's trade dress, but the law protects the distinctive totality. The jury visited both Taco Cabana and Two Pesos, and heard ample evidence of the distinctiveness of Taco Cabana's total trade dress, including the impressions of individuals responsible for the ultimate look of Two Pesos, who were sufficiently impressed with the distinctiveness of Taco Cabana's trade dress to replicate it. Given its rather brazen appropriation of Taco Cabana's distinctive combination, Two Pesos cannot escape accountability for unfair competition simply by pointing to particular elements it might have fairly employed for its own trade dress.

C. The Legal Effect of the Cross-License.

[12] Prior to this litigation, the Stehling brothers divided the Taco Cabana restaurants. Felix Stehling retained the name "Taco Cabana," and Michael Stehling adopted the name "TaCasita." The agreement allowed the two groups to use the same trade dress, which Two Pesos calls a "naked license." But Two Pesos

faces a stringent standard because finding a "naked license" signals involuntary trademark abandonment and forfeits protection. See *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619, 624-25 (5th Cir. 1963). While this cross-license arrangement is not governed closely by any precedent, we find no basis for an involuntary abandonment.

[13, 14] An owner may license its trademark or trade dress and retain proprietary rights if the owner maintains adequate control over the quality of goods and services that the licensee sells with the mark or dress. See *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977) (quality-control rationale is that public has right to expect consistent quality of goods or services associated with trademark or trade dress). Two Pesos argues that the cross-license creates two separate sources of good will and thus cannot indicate a single origin. This argument ignores the emergence of the "quality theory," which broadens the older source theory "to include not only manufacturing source but also the source of the standards of quality of goods bearing the mark" or dress. 1 J. McCarthy, *supra*, § 3:4 at 112. So long as customers entering a Taco Cabana or a TaCasita can expect a consistent level of quality, the trade dress retains its "utility as an informational device." *Kentucky Fried*, 549 F.2d at 387.

While the parties dispute the actual level of quality control, the jury's finding—that Taco Cabana exercises adequate supervision and control over TaCasita to ensure that the quality of TaCasita's goods and services are not inferior to Taco Cabana's—enjoys adequate record support. We also reject Two Pesos' argument that the district court erred in refusing to instruct the jury that TaCasita must also exercise quality control over Taco Cabana. Ignoring the record evidence of at least some bilateral quality

monitoring, the law requires consistent quality, not equivalent policing. The jury found the requisite quality consistency; we need not demand rigorous bilateral regulation.

[15] The purpose of the quality-control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress. Where the particular circumstances of the licensing arrangement persuade us that the public will not be deceived, we need not elevate form over substance and require the same policing rigor appropriate to more formal licensing and franchising transactions. Where the license parties have engaged in a close working relationship, and may justifiably rely on each parties' intimacy with standards and procedures to ensure consistent quality, and no actual decline in quality standards is demonstrated, we would depart from the purpose of the law to find an abandonment simply for want of all the inspection and control formalities. *See Embedded Moments, Inc. v. International Silver Co.*, 648 F.Supp. 187, 194 (E.D.N.Y. 1986) (license agreement without explicit provision for supervisory control and absence of actual inspection nevertheless no basis for abandonment where prior working relationship established basis for reliance on licensee's integrity and history of manufacture was "trouble-free").

The history of the Stehling brothers' relationship warrants this relaxation of formalities. Prior to the licensing agreement at issue, the Stehling brothers operated Taco Cabana together for approximately eight years. Taco Cabana and TaCasita do not use significantly different procedures or products, and the brothers may be expected to draw on their mutual experience to maintain the requisite quality consistency. They cannot protect their trade dress if they operate their separate restaurants in ignorance of each other's operations, but they need not maintain the careful

policing appropriate to more formal license arrangements. Two Pesos adduces no evidence to indicate any decline in the level of quality at Taco Cabana or TaCasita, and we find nothing in the record to substantiate Two Pesos' claim that the licensing arrangement diminishes any proprietary rights in the trade dress.

D. Likelihood of Confusion.

[16] The district court properly instructed the jury on the likelihood of confusion,⁹ the jury found for Taco Cabana on this issue, and we find no reversible error.

Ignoring the indicia of confusion that yield unfavorable answers, Two Pesos expends considerable energy assaulting the Gelb Survey offered by Taco Cabana. That survey asked customers: (1) if they had ever been to a TaCasita or Taco Cabana or Two Pesos restaurant; (2) if yes, which ones; (3) "Do you think that any of these stores are owned or operated by the same company?" and (4) if so, "Why do you say that?" Questions 3 and 4 simply and objectively address the issue in this litigation. Subject to cross-examination and the other tools of the adversarial system, the jury could properly consider Mr. Gelb's conclusion that a substantial population of those who patronize quick-service Mexican

⁹ The indicia of confusion in the Fifth Circuit, as the district court correctly instructed, include: (a) the type of trade dress at issue; (b) the similarity between the trade dresses; (c) the similarity of products or services provided; (d) whether the plaintiff and defendant were in market competition for the same customers; (e) whether the plaintiff and defendant were likely to use the same advertising media; (f) defendant's intent in its adoption of its restaurant trade dress; and (g) instances of actual confusion. *Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45 (5th Cir. 1975). No single factor is necessarily dispositive. *Falcon Rice*, 725 F.2d at 345 n. 9. Proof of actual confusion is not necessary. *Roto-Rooter*, 513 F.2d at 45-46.

restaurants, particularly those who have patronized Taco Cabana (where the survey was conducted), are likely to believe that Taco Cabana and Two Pesos are owned or operated by the same company.

The Peterson survey offered by the Two Pesos is less helpful. That survey asked all respondents why they patronize Two Pesos. The survey then asked half of the respondents, "have you ever gone to another restaurant by mistake when you intended to go to a Two Pesos restaurant?" The other half were asked, "have you ever gone to a Two Pesos restaurant by mistake when you intended to go to another restaurant?" Predictably, a statistically insignificant number of people confessed to what would appear to be a rather silly mistake.¹⁰ The issue is not whether consumers can read signs and menus that identify different restaurants, but whether consumers assume some affiliation between Taco Cabana and Two Pesos.

Surveys present evidence of actual confusion, which does not exhaust the confusion indicia. The other indicia considerably strengthen the basis for the jury finding: the similarity of the trade dress; the coincidence of products, markets, and advertising

¹⁰ Seeking thoroughness, the surveyors called twelve of the individuals who did so confess to find out more about the nature of their "mistake." Peterson testified during direct examination that the specific responses demonstrated even less likelihood of confusion between Two Pesos and Taco Cabana, because, for example, one person said he had taken a wrong turn, drove into the wrong parking lot, and ended up at Two Pesos "by mistake." Thus even the few so-called mistakes, in Peterson's gloss, turned out to have nothing to do with trade dress. Such responses, far from demonstrating anything relevant about trade dress confusion, instead suggest that people did not understand what the question meant by "mistake."

media; and Two Pesos' intent in adopting its trade dress.¹¹ For self-evident reasons, Two Pesos discusses none of these factors with the vigor of its survey arguments.

Finally, Two Pesos again attacks the cross-license arrangement, arguing essentially that Two Pesos is not accountable for confusion in a market already subject to the confusion perpetuated by Taco Cabana and TaCasita. But a consumer who assumes some affiliation between Taco Cabana and TaCasita assumes correctly and therefore suffers no "confusion."¹² An equivalent assumption about Two Pesos, however, is incorrect, and properly indicative of the market confusion for which the Lanham Act provides redress.

[17] We therefore affirm the trial court's judgment that Two Pesos' appropriation of Taco Cabana's protectable trade dress creates a likelihood of confusion between unrelated entities, and thereby constitutes unfair competition.

¹¹ See *Sno-Wizard*, 791 F.2d at 428 (intent alone may be enough to support finding of likelihood of confusion).

¹² Two Pesos promotes the applicability of *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686, 705-06 (2d Cir. 1970) (plaintiff and defendant could not jointly or concurrently use Zeiss trademark because both companies directly competitive, sold same products, used same or very similar marks, marketed in many of the same areas and in the same manner, and there was actual confusion), *cert. denied*, 403 U.S. 905, 91 S.Ct. 2205, 29 L.Ed.2d 680 (1971). But in *Carl Zeiss*, the plaintiff asserted exclusive rights to a trademark. There was no consideration of an amicable licensing arrangement. We would confront the persuasive force of this precedent if, for example, Taco Cabana or TaCasita petitioned the court to resolve a claim of exclusive right to the trade dress.

II. Trade Secret Misappropriation

The jury found that Taco Cabana's architectural plans and kitchen equipment layout and design—but not its kitchen and restaurant operating procedures—constitute trade secrets, and that Two Pesos misappropriated these secrets. The jury awarded \$150,000 for the misappropriation.

[18, 19] A trade secret misappropriation in Texas requires: (a) the existence of a trade secret; (b) a breach of a confidential relationship or improper discovery of the trade secret; (c) use of the trade secret; and (d) damages. *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 896 (5th Cir.), *cert. denied*, 454 U.S. 829, 102 S.Ct. 123, 70 L.Ed.2d 105 (1981). A trade secret is any formula, pattern, device or compilation of information used in one's business, and which gives an opportunity to obtain an advantage over competitors who do not know or use it. *Hyde Corp. v. Huffines*, 158 Tex. 566, 586, 314 S.W.2d 763, 776 (adopting RESTATEMENT OF TORTS § 757(1939)), *cert. denied*, 358 U.S. 898, 79 S.Ct. 223, 3 L.Ed.2d 148 (1958).

[20] Architectural plans and kitchen layout and design drawings may be trade secrets.¹³ See, e.g., *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 278 (Tex. App.—Houston [1st Dist.] 1988, no writ) (blueprints, drawings, and customer lists constitute trade secrets); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901-02 (Tex. Civ. App.—Houston [1st Dist.]

¹³ Two Pesos denies the confidential status of the architectural plans and kitchen design, but significantly defines licensed "confidential information" in its own franchise agreement to include "drawings, materials, equipment, specifications, techniques" and so forth.

1978, writ ref'd n.r.e.) (drawings of assembly-line layout and design entitled to trade secret protection); *Ecolaire Inc. v. Crissman*, 542 F.Supp. 196, 206 (E.D. Pa. 1982) (drawings, blueprints, and lists constitute trade secrets because such information could be obtained, through other than improper means, only with difficulty and delay).

[21] The issue thus becomes whether sufficient and continuous secrecy attached to these particular plans and drawings to preserve their status as trade secrets.

The owner of the secret must do something to protect himself. He will lose his secret by its disclosure unless it is done in some manner by which he creates a duty and places it on the other party not to further disclose or use it in violation of that duty.

Furr's, Inc. v. United Specialty Advertising Co., 385 S.W.2d 456, 459 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.), *cert. denied*, 382 U.S. 824, 86 S.Ct. 59, 15 L.Ed.2d 71 (1965); see also *Carson Products Co. v. Califano*, 594 F.2d 453, 461 (5th Cir. 1979) (however strong other indicia of trade secret status may be, subject matter must be secret, such that acquiring information would be difficult except by improper means).

The jury concluded that Two Pesos had misappropriated Taco Cabana's trade secrets, and we must review that conclusion constrained by our generous deference to jury findings. Under a less deferential standard of review, our decision might differ, but considering the evidence "in the light and with all reasonable inferences most favorable" to Taco Cabana, we cannot say that "the facts and inferences point so strongly and overwhelmingly in favor of [Two Pesos] that the Court believes that reasonable [persons]

could not arrive at a contrary verdict." *Boeing Co. v. Shipman*, 411 F.2d 365, 374 (5th Cir. 1969) (en banc), cited in *Molex Inc. v. Nolen*, 759 F.2d 474, 478-79 (5th Cir. 1985) (trade-secret jury trial).

The jury could reasonably view the disclosures adduced by Two Pesos as limited and therefore insufficient to extinguish the secrecy of the materials. If a voluntary disclosure occurs in a context that would not ordinarily occasion public exposure, and in a manner that does not carelessly exceed the imperatives of a beneficial transaction, then the disclosure is properly limited and the requisite secrecy retained. *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1200 (5th Cir. 1986) (finding no surrender of secrecy where disclosures were not public announcements and secrets divulged only to businesses with whom plaintiff dealt with expectation of profit). Thus the disclosure of Taco Cabana plans to contractors did not extinguish their secrecy.¹⁴

[22] Similarly, only a limited disclosure was shown by the fact that a paralegal for Two Pesos' trial counsel obtained the architectural plans from a municipality under the Texas Open Records

¹⁴ See also *International Election Systems Cob. v. Shoup*, 452 F.Supp. 684, 707-08 (E.D. Pa. 1978) (technical drawings and blueprints qualified as trade secrets despite their unrestricted transfer to certain companies and employees' free access to such records), *aff'd without op.*, 595 F.2d 1212 (3d Cir. 1979); cf. *Nucor Corp. v. Tennessee Forging Steel Service, Inc.*, 476 F.2d 386, 390 (8th Cir. 1973) (distribution of plans to potential contractors and subcontractors, even though not marked confidential and not required to be returned, does not constitute general publication for purposes of common law copyright).

Act. TEX. REV. CIV. STAT. ANN. art. 6252-17a (Vernon Supp. 1991).¹⁵ The fact that Taco Cabana was required to file the plans and to obtain a building permit does not eviscerate its legitimate proprietary rights.¹⁶ Cf. *Ashworth v. Glover*, 20 Utah 2d 85, 89-90, 433 P.2d 315, 319 (1967) (architect suing for conversion of restaurant construction plans did not surrender common law proprietary rights in plans by distributing copies to contractors or by filing copy with city). The district court correctly instructed the jury that "[f]iling of architectural plans with a city does not make them public information within the context of secrecy that relates to the law of trade secrets.¹⁷

¹⁵ Section 3(a)(10) creates an exception to disclosure for "trade secrets and commercial or financial information obtained from a person and privileged or confidential by statute or judicial decision." See, e.g., Tex. Att'y Gen. ORD-554 (1990) (semiconductor manufacturer with verified interest in secrecy stated valid trade secret exemption for plan design and layout).

¹⁶ The paralegal obtained the plans in August of 1987 by telling the city clerk of Leon Valley that she needed copies for a lawsuit. Blacketer testified that he obtained a set of Taco Cabana architectural drawings from Kaplan over two years earlier in April of 1985. Thus the acquisition from Leon Valley, even if lawful, does not bear on the outcome of this case. "The fact that a trade secret is of such a nature that it can be discovered by experimentation or other fair and lawful means does not deprive its owner of the right to protection from those who would secure possession of it by unfair means." *Weed Eater*, 562 S.W.2d at 901.

¹⁷ Given the inevitable conflict between public and private information under laws that vigorously and necessarily champion both, we do not intend herein to signal a significant shift in either direction. The delicate balance remains undisturbed. But if the wide public dissemination we prize disorgans properly confidential information, we need not thereafter baptize its unfair exploitation. We neither alter nor add to either body of law to recognize that bare availability of information does not end the fact-sensitive inquiry into whether it was nevertheless misappropriated. Cf. *Edgar H. Wood Associates, Inc. v. Skene*, 347 Mass. 351, 363, 197 N.E.2d 886, 894 (1964) ("It is not the purpose of the filing requirement to facilitate and permit architectural plagiarism, or enable one to obtain free of charge the benefit of another's work and thus to reap where it has not sown.").

Joseph Friesenhahn, Felix Stehling's former partner, was a prospective associate in the Two Pesos venture until McDermott and Blacketer decided to go forward without his services. Friesenhahn testified in his deposition that McDermott (one of Two Pesos' founders) offered him \$25,000 for a set of the plans. McDermott fervently denied making this offer, and Friesenhahn's deposition testimony did flip-flop on this issue because of a peculiar memory lapse in the first deposition. But it is the jury's province to determine weight and credibility. "Secrecy is a relative term. The information may be known to several persons and yet still be secret if third parties would be willing to pay for a breach of trust in order to ascertain it." *A.H. Emery Co. v. Marcan Products Corp.*, 268 F. Supp. 289, 299 (S.D.N.Y. 1967) (holding that drawings and blueprints of a machine are trade secrets), *aff'd*, 389 F.2d 11 (2d Cir.), *cert. denied*, 393 U.S. 835, 89 S.Ct. 109, 21 L.Ed.2d 106 (1968).

The jury heard further that upon failing the Friesenhahn ploy, McDermott and Blacketer obtained a set of the plans from Joe Kaplan, a lighting designer. Kaplan testified in his deposition that he had borrowed a set of plans from Rene DeBacker, an electrical estimator for Vollmer Electrical Company. Kaplan said he wanted to study the plans and recommend better lighting arrangements, though he later admitted that he never looked at the plans. He copied the plans without telling anyone, and the next day "brought the [original] plans back and put them back on the table where [he] found them."

DeBacker testified that he considers such plans confidential, that he would always consult Vollmer before considering a request for copies of plans, and that neither Kaplan nor anyone else ever asked him for a set of the plans. Ferdinand Vollmer likewise testified that his company treats all architectural plans as

proprietary and confidential, that Kaplan never asked him for a set of Taco Cabana plans, that he would not have given him a set even had Kaplan asked, and that he thinks Kaplan stole the plans.

We need not detail the various reasonable inferences—some subtle and some unsavory—to acknowledge that one view of the evidence would not inculpate Two Pesos; another view would. The jury properly assumed its function of assigning weight and credibility to the various accusations and denials, of which the foregoing is a representative glimpse. The jury's conclusion rests on adequate evidence, and we decline to disturb the verdict.

[23] Finally, Two Pesos does not seriously dispute that it used the plans, and ample evidence supports this conclusion.

III. Remedies

The jury awarded \$306,000 for lost profits, \$628,300 for lost income, and nothing for loss of good will. For the trade secret misappropriation, the jury awarded \$150,000.¹⁸ Finding intentional and deliberate infringement, the district court doubled the damages to \$1,868,600 for the trade dress infringement, and awarded attorneys' fees of \$937,550. The court further ordered Two Pesos to make several changes in the design of its Texas restaurants, and to dispel customer confusion by displaying a

¹⁸ In its jury instructions on damages, the district court carefully addressed the separate elements of damages—the value of the trade secret, and the loss of profits, income and good will from the trade dress infringement—but without indicating that these categories could overlap. Two Pesos thoroughly briefed the issue of damages, but raised no point of error as to possible duplication in the award, and we do not address it.

prominent sign for a year acknowledging that Two Pesos had unfairly copied Taco Cabana's restaurant concept.

Taco Cabana claims injury, under the so-called "headstart" theory, from Two Pesos' preemption of the Houston market and other areas. According to Two Pesos, the jury based damages on an initial franchise fee of \$10,000 per store and continuing royalty of 1% (which is substantially below what Taco Cabana or Two Pesos requires of actual franchisees). The lost profits calculation apparently assumes a foreclosure of five restaurants in the Houston area at a 6% profits margin on sales of \$1.7 million per store with an incremental fixed overhead of \$204,000. The jury heard abundant evidence on the foregoing remedies, including detailed damage models yielding totals substantially exceeding the jury's award.

A. Trade-Dress Infringement Remedies.

[24] Circuits that have addressed the issue uniformly apply the Lanham Act remedies of section 35 to violations of section 43(a). See *NuPulse, Inc. v. Schlueter Co.*, 853 F.2d 545, 548, 550 (7th Cir. 1988) (citing cases).¹⁹ Section 35 provides that a prevailing plaintiff may,

subject to the principles of equity . . . recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action In assessing damages the court may

¹⁹ Congress codified this resounding support for consistent remedies by enacting the Trademark Law Revision Act on November 16, 1988 which, *inter alia*, amended section 35 to include section 43(a) violations. 15 U.S.C.A. § 1117(a) (West Supp. 1991).

enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. Such sum . . . shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party.

15 U.S.C.A. § 1117(a) (West Supp. 1991). Taco Cabana's recovery may include "the economic benefits they normally would have received by licensing." *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 597 F.2d 71, 75 (5th Cir. 1979).

B. Injunctive Relief.

[25, 26] Two Pesos weakly contests the requirements of structural changes and corrective and advertising, calling them punitive instead of compensatory. "In fashioning relief against a party who has transgressed the governing legal standards, a court of equity is free to proscribe activities that, standing alone, would have been unassailable." *Kentucky Fried*, 549 F.2d at 390; see also *Chevron*, 659 F.2d at 705 (defendant required to distance itself from plaintiff's trade dress, even if requirement involves a competitive handicap not suffered by others); *Frisch's Restaurants, Inc. v. Elby's Big Boy, Inc.*, 670 F.2d 642, 650-51 (6th Cir.) (affirming district court's requirement of corrective advertising), *cert. denied*, 459 U.S. 916, 103 S.Ct. 231, 74 L.Ed.2d 182 (1982).

C. Profits and Damages.

[27] Two Pesos argues that a monetary award requires evidence of actual confusion, and that only diverted sales provide a proper measure of damages. We disagree, as we did in *Boston Professional Hockey*, 597 F.2d at 75-76 (plaintiff's failure to quantify any

damages from diverted sales did not preclude recovery for deprivation of economic benefits that would have accrued from licensing); *see also Shen Mfg. Co. v. Suncrest Mills, Inc.*, 673 F. Supp. 1199, 1206 (S.D.N.Y. 1987) (defendant's intentional copying entitles plaintiff to profits based on unjust enrichment theory despite failure to prove any instance of actual confusion). Because we embrace the "headstart" theory as the apt framework for monetary recovery, we need not pursue the issue of actual diverted sales.

Especially given the volatility of the restaurant industry, and the significant value of securing the image of "market leader," we believe the "headstart" theory provides an apt framework for Taco Cabana's monetary recovery. Two Pesos' infringement foreclosed the Houston market, which Gabriel Gelb characterized as "one of the most affluent Mexican food markets in the country." Based on the Houston market alone, Gelb estimated lost profits of \$4.4 million. Other damage models produced even higher figures. The jury award easily qualifies as reasonable compensation to Taco Cabana.

D. Enhanced Damages.

Finding that Two Pesos' conduct was willful and deliberate, the district court doubled the jury award for infringement. Judge Singleton asserted that "[u]nder the facts of this case and listening to the witnesses and judging the credibility myself, I can come to no other conclusion than to find that Two Pesos' actions were willful in the sense that it was deliberate. . . . The evidence was overwhelming." Intentional imitation alone—as opposed to intentional infringement—would not suffice for the requisite bad faith, but as his Order recites, Judge Singleton found "that Two

Pesos intentionally and deliberately infringed Taco Cabana's trade dress."

[28, 29] We must respect the fact that section 35 endows the district court with considerable discretion in fashioning an appropriate remedy for infringement. An enhancement of damages may be based on a finding of willful infringement, but cannot be punitive. *Playboy Enterprises, Inc. v. P.K. Sorren Export Co.*, 546 F. Supp. 987, 998 (S.D.Fla. 1982); *see* 15 U.S.C.A. § 1117(a) (West Supp. 1991) (any sum in excess of actual damages must "constitute compensation and not a penalty").

[30] It is anomalous to say that an enhancement of damages, which implies an award exceeding the amount found "compensatory," must be "compensatory" and not "punitive." Responding to that anomaly, we have suggested that enhancement could, consistent with the "principles of equity" promoted in section 35, provide proper redress to an otherwise undercompensated plaintiff where imprecise damage calculations fail to do justice, particularly where the imprecision results from defendant's conduct. *Boston Professional Hockey*, 597 F.2d at 77 (increased damages justified when defendant withholds or misrepresents available sales records or otherwise obstructs ascertainment of damages); *accord P.K. Sorren*, 546 F. Supp. at 998-99 (award of excess damages appropriate where "record strongly indicates that plaintiff's damages and defendant's profits were both greater than the amounts conclusively proven"). We find no evidence of information obstruction by Two Pesos, but we acknowledge the trial court's superior capacity to discern the elements of equitable compensation. Given the substantial evidence of willful infringe-

ment,²⁰ the jury finding of trade secret misappropriation, and the evidence of substantial damages not reflected in the jury award, we cannot say that Judge Singleton abused his discretion.

E. Attorney Fees.

[31] Section 35 of the Lanham Act permits an award of attorneys' fees in "exceptional cases." The judicial definition of an exceptional case often appears indistinguishable from the standard for enhancement of damages: some form of willful, deliberate, or fraudulent conduct. Indeed, Taco Cabana invites us to apply the same standard, employ the same evidence, and affirm on that basis. We decline to conflate the standards because some cases may well warrant one form of recovery and not the other,²¹ and we do not wish so to regiment the discretion of district courts seeking equity.

[32] We review for abuse of discretion, mindful that "the district court heard the evidence, saw the witnesses, and appraised their motives. Based on its personal observations, the court found that [defendant's] conduct was 'certainly intentional' and designed to reduce [plaintiff's] sales." *Nu-Pulse*, 853 F.2d at 547

²⁰ The weight of the evidence persuades us, as it did Judge Singleton, that Two Pesos brazenly copied Taco Cabana's successful trade dress, and proceeded to expand in a manner that foreclosed several lucrative markets within Taco Cabana's natural zone of expansion. Cf. *Weiner King, Inc. v. Wiener King Corp.*, 615 F.2d 512, 522 (C.C.P.A. 1980) (junior user's knowledge of senior user coupled with attempt to box in senior user by cutting off expansion can support finding of bad faith in registration hearing).

²¹ See, e.g., *Playboy Enterprises, Inc. v. Baccarat Clothing Co.*, 692 F.2d 1272, 1276 (9th Cir. 1982) (affirming district court's refusal to enhance damages, but reversing refusal to award attorneys' fees).

(affirming award of fees); see also *Shen Mfg.*, 673 F. Supp. at 1207 (defendant's intentional copying makes case "exceptional" and entitles plaintiff to punitive damages and attorneys' fees). Some conscious good-faith effort by Two Pesos to create elements of dissimilarity might have rendered this case "unexceptional." *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 942 (7th Cir. 1989), cert. denied, ___ U.S. ___, 110 S.Ct. 1124, 107 L.Ed.2d 1030 (1990). But Two Pesos earns no such saving grace. Given the evidence of brazen imitation and rapid market foreclosure, we find no abuse of discretion in the award of attorneys' fees.²²

F. Trade-Secret Damages.

[33, 34] Trade-secret misappropriation damages typically embrace some form of royalty. *Metallurgical*, 790 F.2d at 1208 ("reasonable royalty" aptly defines measure of damages in trade secret misappropriation case); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 737 (5th Cir.) (affirming award of damages that represented reasonable per unit royalty), cert. denied, 458 U.S. 1108, 102 S.Ct. 3488, 73 L.Ed.2d 1369 (1982). With the evidence of sales in the scores of millions and impressive profits, the jury's single award of \$150,000 is not unreasonable.

The judgment of the district court is AFFIRMED.

²² The parties stipulated that attorneys' fees of \$937,500 were reasonable if the district court could properly award fees.

**CHRONOLOGICAL LIST OF RELEVANT DOCKET
ENTRIES**

January 6, 1987	Complaint filed in United States District Court for the Southern District of Texas, Houston Division.
February 6, 1987	Answer, Defenses and Counterclaims filed with the District Court.
March 3, 1987	Reply to Counterclaim filed in District Court.
March 22, 1988	First Amended Complaint filed in District Court.
September 22, 1988	Final Joint Pretrial Order filed in the United States District Court.
October 26, 1988	The Final Instructions to the Jury filed in the United States District Court.
October 26, 1988	Jury Verdict rendered.
November 4, 1988	Motions for Judgment Notwithstanding the Verdict filed with the District Court.
November 7, 1988	Injunction Hearing held by the District Court.
November 9, 1988	Order entered denying Motions for Judgment Notwithstanding the Verdict.

December 30, 1988	Signed, final Order entered awarding monetary and injunctive relief.
January 17, 1989	Motions for a New Trial filed with the District Court.
January 24, 1989	Order entered denying Motions for a New Trial.
February 17, 1989	Notice of Appeal filed with District Court.

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL,	§	
INC., and TACO CABANA, INC.,	§	C.A. No. H-87-0026
	§	
Plaintiffs,	§	
	§	
vs.	§	
	§	
TWO PESOS, INC.,	§	TRIAL BY JURY DEMANDED
	§	
Defendant.	§	

FIRST AMENDED COMPLAINT

Taco Cabana International, Inc. and Taco Cabana, Inc., Plaintiffs, bring this action against Two Pesos, Inc., Defendant, and allege that:

JURISDICTION

1. This Court has subject matter jurisdiction over this cause under the laws of the United States of America, including 15 U.S.C. § 1125(a) and 28 U.S.C. § 1338.

2. This Court has pendent jurisdiction over all other claims asserted herein, these claims being necessarily determinable together with the above federal claims.

3. The amount in controversy is in excess of Ten Thousand Dollars (\$10,000.00).

4. This Court has personal jurisdiction over the Defendant since the Defendant does business and has its principal place of business in this judicial district.

5. Plaintiffs' claims arise in this judicial district as well as in other judicial districts in Texas and elsewhere in the United States.

THE PARTIES

6. Plaintiffs are Texas corporations having their principal places of business in San Antonio, Bexar County, Texas.

7. Defendant, Two Pesos, Inc., is a Texas corporation having its principal place of business within this judicial district.

FACTS

8. The first Taco Cabana restaurant opened in San Antonio, Texas in 1978 and the next one opened in early 1983. From these restaurants, a chain of successful Taco Cabana restaurants was established which through the expenditure of time, effort and monies has become well-known for high quality, distinctive Mexican fast-food. Plaintiff Taco Cabana, Inc. is the owner of several restaurants operating in San Antonio, Austin, Houston and San Marcos. Plaintiff Taco Cabana International, Inc. acquired the right to enforce the trade dress and other proprietary rights of the Taco Cabana chain of restaurants by contract. Taco Cabana, Inc., Taco Cabana International, Inc., and their predecessors being collectively referred to hereinafter as "Plaintiffs."

9. Plaintiffs have developed, through the expenditure of time, effort and monies, a distinctive trade dress which identifies Plaintiffs' goods and services and distinguishes them from the goods and services of its competitors.

10. Plaintiffs' trade dress includes among other things a festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outdoor patio by garage doors. The exterior of the building is a festive and vivid color using top border paint and neon stripes. Bright awnings and umbrellas continue the theme. The food ordering counter is set at an oblique angle to the exterior wall and communicates electronically with the food preparation and pick-up areas. The exposed food preparation area is accented by certain cooking and preparation equipment which is visible to the consumer and the menu board is prominently placed near the ordering counter. Proximate the food pick-up area is a condiment stand which is located within the interior dining area.

11. Plaintiffs' goods and services as identified by its trade dress have become widely and favorably accepted by the consuming public and have enjoyed much commercial success.

12. Plaintiffs' trade dress, through widespread and favorable public acceptance and recognition, has become an asset of substantial and incalculable value as the identifying indicia of Plaintiffs' quality products, quality services and goodwill.

13. Subsequent to Plaintiffs' public use of its trade dress and Plaintiffs' trade dress acquiring public acceptance and recognition as identifying and distinguishing Plaintiffs' restaurants from the

restaurants of others, Defendant, with prior knowledge of Plaintiffs' use of its trade dress, began offering competitive goods and services to the public identified by a trade dress which is confusingly similar or likely to cause confusion with the trade dress of Plaintiffs.

14. A partial textual list of some of the elements of similarities between Defendant's trade dress and Plaintiffs' trade dress as described above can be found in Exhibit A attached to the Original Complaint and incorporated herein for all purposes.

15. Defendant has also arranged to illegally obtain a set of Plaintiffs' architectural plans and used a copy of the plans to derive the final plans for Defendant's restaurants.

16. Defendant has wrongfully misappropriated additional intangible property rights of the Plaintiffs by acquiring Plaintiffs' trade secrets, know-how and personnel and otherwise taking actions to wrongfully "copy" or "knock-off" Plaintiffs' successful business and reputation.

17. Defendant has employed at least one former manager of a Plaintiffs' restaurant and interviewed other employees and suppliers with a view toward executing its intent to duplicate the Taco Cabana concept and misappropriate it.

18. Defendant's copying of Plaintiffs' trade dress, methods of doing business and architectural plans, when taken together, produce a pattern and effect which show that Defendant deliberately and intentionally copied and misappropriated Plaintiffs' trade dress and intangible property rights and has caused Defendant's restaurants, goods and services to be likely to be confused or mistaken for those of Plaintiffs' restaurants,

goods, and services or to confuse the public as to the source and origin of these unique goods and services identified by Taco Cabana's trade dress.

19. Plaintiffs have complained to the Defendant of Defendant's misappropriation in writing and in meetings and has repeatedly demanded that Defendant cease and desist from the above complained of activities. Defendant's complained of activities have continued unabated.

20. The acts of Defendant complained of hereinabove are unlawful, and willful and knowing with the intent and result of injuring the Plaintiffs.

COUNT ONE

UNFAIR COMPETITION

AND FALSE DESIGNATION OF ORIGIN

21. Plaintiffs repeat and reaver each and every averment contained in paragraphs 1 through 20 hereof as if fully set forth herein.

22. Defendant has and is continuing to affix, apply, or use in connection with its restaurants, goods and services a false designation or origin, or a false description and representation, tending to falsely describe or represent the same, and has caused such use to enter into commerce and has, with knowledge of the falsity of such designation of origin or description and representation, caused or procured the same to be transported or used in commerce.

23. By the acts herein alleged, Defendant has falsely designated the origin of its restaurants, goods and services and has falsely described and represented the same and has caused them to enter into interstate commerce in violation of Section 43(a) of the Trademark Act (Lanham Act) of July 15, 1946, as amended, Title 15 U.S.C. § 1125(a).

24. The acts of Defendant complained of hereinabove tend to falsely describe or represent that Defendant's restaurants, goods and services are of the same character, nature and quality as the restaurants, goods and services of Plaintiffs, thereby damaging Plaintiffs and Plaintiffs' reputation and said acts have been committed knowingly and willfully and will continue unless enjoined by this Court.

25. The acts of Defendant complained of hereinabove constitute acts of unfair competition against Plaintiffs under the laws of the United States of America including Section 43(a) of the Lanham Act, which acts have been committed knowingly and willfully and have injured Plaintiffs in their trade and business. Unless Defendant's unfair acts are enjoined, the irreparable harm suffered by Plaintiffs will continue.

COUNT TWO

STATE UNFAIR COMPETITION

26. Plaintiffs repeat and reaver each and every averment contained in paragraphs 1 through 25 hereof as if fully set forth herein.

27. The acts of Defendant complained of hereinabove constitute acts of unfair competition against Plaintiffs under the

laws of the State of Texas, which acts have been committed knowingly and willfully and have injured Plaintiffs. Unless Defendant's unfair acts are enjoined, the irreparable harm suffered by Plaintiffs will continue unabated.

COUNT THREE

DECLARATORY JUDGMENT AND INJUNCTIVE
RELIEF

28. Plaintiffs repeat and reaver each and every averment contained in paragraphs 1 through 27 hereof as if fully set forth herein.

29. Defendant is irrevocably committed to pursuing in the future the above described courses of conduct to Plaintiffs' great, immediate and irreparable harm.

30. Plaintiffs seek a declaratory judgment that the above described courses of conduct of Defendant are unlawful and seek injunctive relief ordering Defendant to cease such unlawful courses of conduct and follow a remedial course of conduct to compensate for and restore Plaintiffs to the position they had obtained prior to Defendant's embarking on its wrongful and improper course of conduct.

PRAYER FOR RELIEF

WHEREFORE, PREMISES CONSIDERED, Plaintiffs pray for the following relief:

A. After a trial on the merits, a permanent injunction issue enjoining Defendant, its agents, servants, employees or anyone

acting in concert with them from infringing Plaintiffs' trade dress or unfairly competing with Plaintiffs or misappropriating Plaintiffs' tangible and intangible property rights;

B. Defendant be required to pay Plaintiffs such damages, together with prejudgment interest thereon, as Plaintiffs have sustained as a consequence of Defendant's wrongful acts as set forth above, and to account for and return to Plaintiffs, any monies, gains, profits and advantages gained by Defendant due to the wrongful courses of conduct set forth above;

C. Defendant be required to pay exemplary damages to Plaintiffs;

D. Defendant be required to pay Plaintiffs' costs of this action, including costs and attorneys' fees;

E. A declaratory judgment issue that the courses of conduct by Defendant as set forth above are unlawful and dictating remedial action by the Defendant to remedy such wrongful course of conduct; and

F. Judgment in favor of Plaintiffs granting such other and further relief to Plaintiffs as this Court may deem just.

Plaintiffs demand a trial by jury pursuant to Fed. R. Civ. P. 38.

Respectfully submitted,

James B. Gambrell
Admissions ID No. 1125
Attorney in Charge
Pravel, Gambrell, Hewitt, Kimball
& Krieger
1177 West Loop South
Suite 1010
Houston, Texas 77027
(713) 850-0909

Of Counsel:

Marc L. Delflache
Richard D. Fladung
Pravel, Gambrell, Hewitt,
Kimball & Krieger
1177 West Loop South
Suite 1010
Houston, Texas 77027
(713) 850-0909

Date: December 15, 1987

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing FIRST AMENDED COMPLAINT was served via U.S. First Class Mail, postage prepaid on the following on this 15th day of December, 1987:

Michael O. Sutton
ARNOLD, WHITE & DURKEE
750 Bering Drive, Suite 400 (77057)
P. O. Box 4433
Houston, Texas 77210

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL, INC., §
and TACO CABANA, INC., §
§
Plaintiffs, §
§
v. § C.A. No. H-87-0026
§
TWO PESOS, INC., §
§
Defendant. §

ANSWER, DEFENSES AND COUNTERCLAIMS
TO FIRST AMENDED COMPLAINT

TWO PESOS, INC. ("TWO PESOS") responds to Plaintiffs' First Amended Complaint as follows, with the numbered paragraphs 1-30 corresponding to like numbered paragraphs in the Complaint:

ANSWER

1. Admitted.
2. Denied.
3. Admitted.

4. Admitted.
5. Denied.
6. Admitted.
7. Admitted.

8. TWO PESOS admits the statements in the first sentence of this paragraph. TWO PESOS is without sufficient knowledge or information to form a belief as to the truth of all other statements in this paragraph, and therefore denies the truth of such statements.

9. Denied.
10. Denied.
11. Denied.

12. TWO PESOS admits that Plaintiff's trade dress, if any, has an incalculable value, thereby preventing Plaintiff from having any legitimate claim to monetary damages. TWO PESOS denies all other allegations in this paragraph.

13. Denied.

14. TWO PESOS admits that Plaintiffs have attached an Exhibit A to the Original Complaint, but otherwise denies the statements in this paragraph.

15. Denied.

16. Denied.

17. TWO PESOS admits that it hired one of Plaintiffs' managers after Plaintiffs had terminated that person's employment with Plaintiffs, but otherwise denies the statements in this paragraph.

18. Denied.

19. TWO PESOS admits that it has received at least one letter from representatives of Plaintiffs, that representatives of TWO PESOS have met with representatives of Plaintiffs to attempt to determine the specific charges and to resolve and compromise their differences on reasonable terms, but denies that there was ever a good faith basis for any of Plaintiffs' charges or that Plaintiffs have ever attempted to negotiate settlement in good faith. TWO PESOS denies all other allegations in this paragraph.

20. Denied.

21. TWO PESOS responds to each and every averment contained in this paragraph as it has responded in paragraphs 1-20 above.

22. Denied.

23. Denied.

24. Denied.

25. Denied.

26. TWO PESOS responds to each and every averment contained in this paragraph as it has responded in paragraphs 1-25 above.

27. Denied.

28. TWO PESOS responds to each and every averment contained in this paragraph as it has responded in paragraphs 1-27 above.

29. TWO PESOS admits that it is committed to doing what it has a right to do, i.e., compete fairly in the restaurant business with Plaintiffs. TWO PESOS denies that it is competing unfairly and specifically denies all other allegations of this paragraph.

30. TWO PESOS admits that Plaintiffs seek certain relief in this action, but denies that Plaintiffs are entitled to such relief and denies all other allegations of this paragraph.

AFFIRMATIVE AND OTHER DEFENSES

31. Plaintiffs are estopped from asserting any rights that they might otherwise have had.

32. The delay of Plaintiffs in bringing this action and their inaction in asserting whatever rights they may have constitute a waiver, estoppel and/or laches to Plaintiffs' ability to obtain relief in this suit.

33. TWO PESOS has not infringed upon any protectable rights that Plaintiffs might have, including trade dress rights, rights under Title 15 U.S.C. § 1125(a), or any other rights that are asserted in the First Amended Complaint. In particular, without

limitation, TWO PESOS asserts that any similarities between its restaurants and Taco Cabana restaurants exist in aspects which are either functional, not sufficiently distinctive, and/or have not acquired or cannot legally acquire a secondary meaning.

34. TWO PESOS has not done anything that could be considered or construed as acts of unfair competition.

35. Plaintiffs' sole remedy for alleged improper copying of any architectural plans is under the Copyright Laws of the United States. All common law claims arising from the alleged copying of any architectural plans are specifically preempted by 17 U.S.C. § 301. Accordingly, Plaintiffs have no basis for urging any allegedly improper copying of any architectural plans.

36. Plaintiffs have no trade secrets that could have been misappropriated by TWO PESOS. No confidential relationship has ever existed between Plaintiffs and TWO PESOS, either express or implied, and TWO PESOS has not used any information that could reasonably be considered as being proprietary to Plaintiffs.

37. Plaintiffs have suffered no damage and/or no quantifiable damage as a result of any activities of TWO PESOS.

38. Plaintiffs have knowingly permitted third parties to use their allegedly proprietary trade dress and business methods without taking action against them, thereby rendering such alleged trade dress and business methods unprotectable as a matter of law.

COUNTERCLAIM

JURISDICTION

39. The Court has subject matter jurisdiction under the Declaratory Judgment Act, Title 28, United States Code, Sections 2201 and 2202, and under the laws of the United States concerning actions arising under an Act of Congress relating to trademarks, Title 15, United States Code, Section 1121 and Title 28, Section 1338(a). The Court has ancillary, or in the alternative pendent, subject matter jurisdiction over the unfair competition counterclaims under 28 U.S.C. § 1338(b) because these counterclaims are substantial and related claims to the Act of Congress relating to trademarks.

40. This Court has ancillary, or in the alternative pendent, subject matter jurisdiction over this counterclaim under the laws of the United States of America because this counterclaim is a compulsory counterclaim which bears a logical relationship with the claims asserted in Plaintiffs' First Amended Complaint.

41. The Court has personal jurisdiction over the Counterclaim Defendants, which are Texas corporations having several places of business in Houston and which have selected this forum for determination of the causes asserted in their First Amended Complaint.

FACTS

42. TWO PESOS has enjoyed success to date with its restaurants and as a result has planned and continues to plan expansion of its enterprise by seeking to open additional restaurants in Houston and elsewhere.

43. Through its own efforts and by various other means TWO PESOS also has plans to expand through the granting of franchises to third parties and has developed numerous advantageous business relationships with both potential investors and franchisees.

44. Further, TWO PESOS has completed a merger with Span Corporation under a plan of going public to raise capital for further expansion of its restaurant chain.

45. TWO PESOS has also completed a secondary offering of publicly traded securities in a further attempt to raise capital for expansion of its restaurant chain.

46. Counterclaim Defendants were aware of TWO PESOS' intent to merge, were and are aware of efforts by TWO PESOS to raise capital for continued expansion, and were and are aware of TWO PESOS' attempts to obtain franchisees.

47. On information and belief, Counterclaim Defendant Taco Cabana International, Inc. filed its Original Complaint with both Counterclaim Defendants' knowledge and approval, and then the Counterclaim Defendants filed their First Amended Complaint, both actions being with the purpose by both Counterclaim Defendants of interfering with and hampering TWO PESOS' expansion plans and its ability to raise capital to support the planned expansion.

48. On information and belief, one of the Counterclaim Defendant's Taco Cabana International, Inc.'s, purposes in filing its Original Complaint was also to aid it in its own expansion plans and in acquiring franchisees. Counterclaim Defendant Taco Cabana, Inc. fully concurred in that action and adopted the

liability for that course of conduct by concurrence in that activity and by joining and continuing with this lawsuit. In this connection, at least one representative of the Counterclaim Defendants has made statements to at least one of TWO PESOS' potential franchisees that TWO PESOS would not be around as a result of the lawsuit brought by Counterclaim Defendants, and that the prospective franchisee should not invest in a TWO PESOS franchise, thereby influencing the prospective franchisee not to deal with TWO PESOS.

49. Counterclaim Defendants are using the timing, filing and existence of this lawsuit as an improper instrument to hamper TWO PESOS' ability to raise capital and to acquire franchisees, both of which are lawful and rightful activities in pursuit of justified commercial activity and growth, and to stifle and restrain competition by TWO PESOS.

COUNT I - DECLARATORY JUDGMENT
OF NO CAUSE OF ACTION
UNDER 15 U.S.C. § 1125(a)

50. Counterclaim Defendants have sued TWO PESOS under 15 U.S.C. § 1125(a) for trade dress infringement.

51. Testimony taken during discovery has shown that the individual elements of Counterclaim Defendants' trade dress are functional and thus not protectable under controlling Fifth Circuit law. Counterclaim Defendant Taco Cabana International, Inc. has even admitted in papers filed with the Court that the individual elements of its trade dress are "functionally optimal."

52. Testimony taken during discovery has shown that Counterclaim Defendants' trade dress is not distinctive, and is

therefore not protectable under Fifth Circuit law in the absence of secondary meaning.

53. Testimony taken during discovery and documents produced by Counterclaim Defendants show that Counterclaim Defendants' trade dress is geographical descriptive and is thus not protectable under Fifth Circuit law in the absence of secondary meaning.

54. Counterclaim Defendants have allowed a competing restaurant chain, Ta Casita, to operate with trade dress identical to the trade dress of several of Counterclaim Defendants' restaurants. It is thus impossible, as a matter of law in the Fifth Circuit, for Counterclaim Defendants' restaurants to have secondary meaning.

55. Counterclaim Defendants have no legally protectable trade dress under controlling Fifth Circuit law. TWO PESOS has been damaged and continues to sustain damage in defending itself against Counterclaim Defendants' trade dress infringement suit. The damages which TWO PESOS has sustained include payment of attorneys fees, diversion of management attention, and diversion of corporate resources. The legally unsupportable claim of trade dress infringement by Counterclaim Defendants against TWO PESOS has caused TWO PESOS irreparable harm, for which there is no adequate remedy at law. Such unlawful prosecution of the trade dress infringement claim by Counterclaim Defendants will continue to damage TWO PESOS unless the Court issues a declaratory judgment finding that Counterclaim Defendants have no legally protectable trade dress and thus have no course of action against TWO PESOS under 15 U.S.C. § 1125(a).

COUNT II - UNFAIR COMPETITION
BY SHAM LITIGATION

56. TWO PESOS reasserts the allegations set forth in Paragraphs 41-55 herein.

57. On information and belief, the filing of the Original Complaint, continued prosecution of Counterclaim Defendants' cause of action for trade dress infringement and misappropriation of trade secrets, and the filing of Counterclaim Defendants' First Amended Complaint, were done for the purposes of hindering TWO PESOS from competing in the marketplace with Counterclaim Defendants.

58. On information and belief, Counterclaim Defendants have engaged in sham litigation against TWO PESOS in an effort to compete unfairly with TWO PESOS.

59. As a result of Counterclaim Defendants' unlawful acts, TWO PESOS has sustained and continues to sustain damages including payment of legal fees, diversion of management attention, and diversion of corporate resources. The sham litigation brought by Counterclaim Defendants against TWO PESOS has been widely reported in industry publications, and to the financial and securities markets. This litigation has depressed the value of TWO PESOS, reduced TWO PESOS' ability to obtain financing and reduced TWO PESOS' ability to expand its number of restaurants.

60. The aforesaid unlawful acts have damaged and continue to damage TWO PESOS, causing irreparable harm, for which there is no adequate remedy at law. Such unlawful acts and damage will continue to occur unless enjoined by this Court.

**COUNT III - UNFAIR COMPETITION BY
TORTIOUS INTERFERENCE
WITH PROSPECTIVE CONTRACTUAL RELATIONSHIPS**

61. TWO PESOS reasserts the allegations set forth in Paragraphs 41-60 herein.

62. By virtue of its success to date with its restaurants, TWO PESOS has enjoyed the potential and reasonable probability for advantageous business relationships with potential investors and franchisees.

63. Counterclaim Defendants have intentionally and maliciously interfered with and attempted to interfere with TWO PESOS' ability to raise capital, to compete in the business of restaurant services, and to acquire franchisees.

64. Counterclaim Defendants were not justified or privileged in their improper efforts to injure and to unfairly compete with TWO PESOS.

65. TWO PESOS has and will continue to suffer actual harm or damage from Defendants' unlawful acts, at least some of which are irreparable.

PRAYER FOR RELIEF

Counterclaim Plaintiff requests:

A. A Declaratory Judgment that Counterclaim Defendants have no cause of action under 15 U.S.C. § 1125(a), and that the litigation by them is sham.

B. A denial of all relief requested by Plaintiffs' First Amended Complaint, including a dismissal with prejudice of all causes of action asserted in the First Amended Complaint.

C. The entry of a permanent injunction, restraining the Counterclaim Defendants from any further improper acts against TWO PESOS.

D. An award of damages in an amount sufficient to compensate TWO PESOS, INC. for the losses it has and will incur as a result of Counterclaim Defendants' unlawful activity, together with prejudgment interest.

E. The entry of an order requiring Counterclaims Defendants to account for and to pay to TWO PESOS, INC. any monies, gains, profits or advantages gained by Counterclaim Defendants as a result of its unlawful activity.

F. An award of exemplary damages in an amount found sufficient to deter Counterclaim Defendants' from committing further unjustified and malicious activity.

G. An award to TWO PESOS, INC. for its costs and legal expenses incurred in this lawsuit.

H. Such other relief that may be justified under the circumstances.

Respectfully submitted,

Date: _____

Michael O. Sutton
Admission I.D. No. 5941
Attorney in Charge
Bill Durkee
Admission I.D. No. 557
Richard T. Redano
Admission I.D. No. 6091
ARNOLD, WHITE & DURKEE
P.O. Box 4433
Houston, Texas 77210
(713) 787-1400

Attorneys for Defendant

CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the foregoing ANSWER, DEFENSES AND COUNTERCLAIMS TO FIRST AMENDED COMPLAINT was served on counsel for Plaintiffs, James B. Gambrell, Esq., Pravel, Gambrell, Hewitt, Kimball & Krieger, 1177 West Loop South, Suite 1010, Houston, Texas 77027 by first class mail on this 29th day of July, 1988.

01/PESO:001/C4

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL, INC.,	{	
Plaintiff,	{	
V.	{	C.A. No. H-87-0026
	{	
TWO PESOS, INC.,	{	
Defendant.	{	

ANSWER, DEFENSES, AND COUNTERCLAIMS

TACO CABANA INTERNATIONAL, INC., answers the asserted counterclaim, to wit Paragraphs 39-54 and states:

COUNTERCLAIM ANSWER

39. Admitted.

40. Admitted.

41. TACO CABANA INTERNATIONAL, INC. is without sufficient knowledge or information to form a belief as to the truth of the statements in this paragraph, and therefore denies the truth of such statements.

42. Denied.

43. TACO CABANA INTERNATIONAL, INC. is without sufficient knowledge or information to form a belief as to the truth of the statements in this paragraph, and therefore denies the truth of such statements.

44. Denied.

45. Denied.

46. Denied.

47. Denied.

48. See above.

49. Denied.

50. See above.

51. TACO CABANA INTERNATIONAL, INC. is without sufficient knowledge or information to form a belief as to the truth of the statements in this paragraph, and therefore denies the truth of such statements.

52. Denied.

53. Denied.

54. Denied.

PRAYER

The Court is respectfully requested to enter judgment that the counterclaim of Two Pesos is, in all regards, denied and further to deny all relief requested therein; further, the Court is respectfully requested to grant relief originally requested in the Complaint herein.

Respectfully submitted,

GUNN, LEE & JACKSON

By: _____
Ted D. Lee - Attorney in Charge
Lawrence E. Evans - Local Co-Counsel
Donald Gunn - On this response
711 Navarro, Suite 720
San Antonio, TX 78205
(512) 222-2336
Attorney for
TACO CABANA INTERNATIONAL,
INC.

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing COUNTERCLAIM ANSWER was enclosed in a postpaid envelope, properly addressed as follows to all counsel of record, and thereafter deposited in a post office or official depository under the care and custody of the U.S. Postal Service on this 3rd day of March, 1987:

VIA CERTIFIED MAIL
RETURN RECEIPT REQUESTED
NO. P 454 302 562

Donald Gunn

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

TACO CABANA INTERNATIONAL,	X
INC., and TACO CABANA, INC.,	X
PLAINTIFFS,	X
	X
VS.	X
	X
TWO PESOS, INC.,	X
DEFENDANTS.	X

THE COURT'S FINAL INSTRUCTIONS TO THE JURY

I. GENERAL INSTRUCTIONS

A. Function of the Jury

Members of the jury, now that the evidence has been closed and the attorneys have had the opportunity to argue the case to you, it becomes my duty to give you the Court's instructions as to the law of the case, discuss with you your function as jurors, and perhaps discuss the evidence with you to some extent. You, the jury, are the fact finding arm of the court. In performing this function, you will weigh and consider the testimony and determine under the instructions given to you by the Court, what are the true facts of this case.

You, the jury, are the sole and exclusive judge of the facts. You should determine the facts without prejudice, fear, or favor and solely from a fair consideration of the evidence. You are not bound by any opinion which you may think I have about the facts in the case, for a determination of the facts is exclusively the function of the jury, and the Court has no desire to intrude on this function.

In connection with any statements or comments I made during the course of this trial, if any one or all of you were led to believe that I have any opinions about the facts of the case, the lawyers involved, or feel a certain way about the credibility of any witness, please dismiss from your mind any such beliefs. You should not attach any significance whatsoever to the fact that I asked some of the witnesses questions and did not ask others questions, nor should you attach any special significance to the questions that I did ask. I have no desire whatsoever to attempt in any way to influence your decisions.

However, insofar as I provide you with the rules of law governing this lawsuit, you are bound to follow them whether or not you agree with them. It would be a violation of your sworn duty to base your verdict upon any other view of the law than that which I give you.

B. The Role of the Jury

You, the jury, are the exclusive judges of the facts proved, of the credibility of witnesses, and of the weight to be given to their testimony.

C. Determination of Facts

You are to determine the facts in the case solely from the evidence in this case. The evidence consists of the testimony of the witnesses and the exhibits received into evidence. Questions asked by the lawyers and their statements in opening or closing arguments are not evidence, for the evidence consists solely of the witnesses' answers to the questions and the exhibits admitted into evidence. Counsel have, however, entered into agreements or stipulations of facts which are not in dispute, and you are to accept those facts as stipulated.

D. Types of Evidence From Which Facts are Established

There are, generally speaking, two types of evidence from which a jury may properly find the truth as to the facts of a case. One is direct evidence — such as the testimony of any eye-witness. The other is indirect or circumstantial evidence — the proof of a chain of circumstances pointing to the existence or non-existence of certain facts.

As a general rule, the law makes no distinction between direct and circumstantial evidence, but simply requires that the jury find the facts in accordance with the preponderance of all the evidence in the case, both direct and circumstantial. Any fact may be established by circumstantial evidence or direct evidence, or both. A fact may be established by direct evidence when proved by documentary evidence or by witnesses who saw the acts done or heard the words spoken. The fact may also be established by circumstantial evidence when the fact sought to be proved is fairly and reasonably inferred from other facts proved in the case. A fact established by circumstantial evidence is just as ~~probative~~ valid as

a fact established by direct evidence and should be given equal weight by the jury.

As an example of what is direct evidence and what is circumstantial evidence, suppose that an important issue for you as a jury to determine is whether it was raining at a particular time of the day. A witness in the case testifies that it was raining during a critical period involved in the case but that at the time the witness was in a home with the shades drawn and in a home in which no outside noises could be heard. The witness further testifies that a person entered the room wearing a wet raincoat. Since the shades were drawn and the room was built in such a manner that the witness could hear no outside noises, the witness could not see or hear or otherwise use any of his senses to determine whether it was actually raining. You jurors, if you felt the witness to be credible, could determine that the witness was correct and that it was raining outside at that time because of the circumstance of a person entering the room with a wet raincoat. In making that determination, you would be relying upon circumstantial evidence. In order to determine that it was raining outside at the time from any direct evidence, you would have to have heard testimony from a witness that actually raised the shades in the room and saw that it was raining outside or went outside and stood in the open air and felt the rain.

E. Determination of the Credibility of Witnesses

In addition to judging the facts of the case, it is the province of the jury to determine the credibility of each witness and the weight to be given to his testimony. By credibility, I mean believability. In weighing the testimony of each witness, the jury should consider the witness' relationship to the parties in this case, the witness' manner of testifying, the witness' candor, fair-

ness, and intelligence, and the extent to which the witness has been confirmed or contradicted, if at all, by other ~~credible~~ *credible* evidence. You may also consider the reasonableness and probability of the witness's testimony.

We normally think that if a witness tells a straight-forward story, if the witness seems to try to answer the questions clearly, concisely and fully, those are some indications that the witness is a credible witness. On the other hand, if the witness answers ambiguously or unclearly, if the witness' testimony does not seem to make sense, or is not in accord with our common experience, these are some indications that the witness' testimony should be taken with some reservation. You jurors will rely upon your own good judgment, your own common sense, and the experience you have gained as you have gone about your everyday affairs, in weighing the evidence and determining the weight to be given to it.

A witness may have been discredited or impeached by contradictory evidence, or by evidence that at other times the witness has made statements which are inconsistent with the witness's courtroom testimony. As a general rule, the earlier contradictory statements are admissible only to impeach the credibility of the witness and not to establish the truth of those earlier statement. If you believe any witness has been impeached and thus discredited, it is your exclusive province to give the testimony of that witness such credibility as you may think it deserves. If a witness has been shown knowingly to have testified falsely concerning any material matter, you have a right to distrust such witness's testimony in other particulars, or reject all the testimony of that witness, or give it such credibility as you may think it deserves.

F. Determination of the Credibility of Expert Witnesses

Some witnesses in this case have testified as experts concerning particular areas of knowledge. The testimony of an expert witness should be considered where the subject matter involved requires special study, training, or skill not within the realm of the ordinary experience of a layman. The fact that such a witness gives an expert opinion does not mean that that opinion is binding upon you, the jury, or that you are obligated to accept the expert witness' opinion as to what the facts are. You must determine, in light of all the evidence, the credibility and weight given to each expert witness's opinion. You the jury, may decide that the expert witness' opinion is not based on the facts or is outweighed by other evidence presented, or you may decide that the expertise, reasons, or assumptions upon which the expert witness based the opinion are not sound.

During the presentation of the Plaintiff's case, you heard testimony from Professor J. Thomas McCarthy who testified as an expert witness for Taco Cabana. Professor McCarthy testified as to the law concerning trade dress rights. It is the exclusive province of the judge to instruct the jury as to the law of the case. Therefore, I am instructing you to disregard the testimony of Professor McCarthy. You are instructed to give no weight or credibility to the testimony of Professor McCarthy *or any other witness of either party* as to the law in this case.

G. Deposition Testimony to be Given Consideration Equal to that of a Testifying Witness

During the trial of this case, certain testimony was shown or read to you by way of depositions. These depositions consisted of sworn written answers to questions which one or more of the

parties' attorneys asked the witness before trial. The testimony of a witness who for some reason cannot be present to testify from the witness stand may be presented in the form of such a deposition. That deposition testimony is entitled to the same consideration as live testimony from the witness stand, and thus, insofar as possible, you must judge its credibility, weigh it, and otherwise consider it in the same way as if the witness had been present and had testified from the witness stand.

H. Demonstrative Exhibits

The court has permitted certain maps, charts, and summaries to be used in connection with lawyers' opening and closing statements as well as the various witnesses's testimony. These demonstrative exhibits have been used by the lawyers or witnesses to explain their version of facts, disclosed documents and testimony which are in evidence in this case. Demonstrative exhibits are not in and of themselves evidence or proof of any facts. If any such demonstrative exhibit does not correctly summarize or explain facts of figures otherwise shown by the evidence in the case, ~~you~~ you should disregard it.

I. Attorneys Objections Not to be Considered

The lawyers have presented objections to some of the testimony or other evidence. It is the duty of a lawyer to object to evidence which he believes may not properly be offered. You should not be prejudiced in any way against a lawyer who makes objections, or against that lawyer's client. At times, the Court has sustained objections or directed that you disregard certain testimony or exhibits. You must not consider any evidence to which an objection has been sustained or which I have instructed you to disregard.

J. Preponderance of the Evidence

The measure of proof that is required in civil lawsuits such as this is what is called the preponderance of the evidence. As used in these instructions, "preponderance of the credible evidence" means the greater weight and degree of credible evidence before you. The Plaintiff has the burden of proving each essential element of its claims by a preponderance of the credible evidence. Likewise, the Defendant has the burden of proving its defenses ~~and each essential element of its counterclaims~~ by a preponderance of the credible evidence. To establish by a preponderance of the credible evidence means to prove that something is more likely so than not so. In other words, a preponderance of the credible evidence in the case means such evidence as, when considered and compared with that opposed to it, has more convincing force and produces in your minds a belief that what is sought to be proved is more likely true than not true.

K. Corporate Liability

A corporation can act only through living persons which are its agents or employees. An agent or employee of a corporation may bind the corporation by acts and declarations made while acting within the agent's or employee's scope of his authority or while acting in the ordinary course of his employment or in the ordinary course of the corporation's business.

Authority to act for a corporation in a particular matter, or in a particular way, may be inferred from the surrounding facts and circumstances shown by the evidence in the case. That is to say, authority to act for a corporation, like any other fact in issue in a civil case, need not be established by direct evidence, but may be established by indirect or circumstantial evidence.

Every act of every director, officer, employee, or other agent, on behalf of or in the name of a corporation, if done within the actual or apparent scope of their authority, is by law the act of the corporation itself.

II. STATEMENT OF THE CASE

Plaintiffs in this case are Taco Cabana International, Inc. and Taco Cabana, Inc., (referred to collectively as "Taco Cabana"). Both are Texas corporations with principal offices in San Antonio. The original principal owners in Taco Cabana, Inc., were two brothers, Felix and Mike Stehling. Today, the principal owners are Felix Stehling *and* his stepsons, Tom and Lynn Moody *and* Richard Cervera.

In 1978, Taco Cabana opened its first fast food restaurant. Thereafter, it started to develop a trade dress concept based in part on the original restaurant. Taco Cabana opened its second San Antonio restaurant in April 1983 using this trade dress concept and later opened a number of additional restaurants in San Antonio, Houston, Austin and elsewhere. Taco Cabana has also granted franchises in various parts of the country.

Defendant in this case is Two Pesos, Inc., a Texas Corporation with its principal office in Houston. The co-founders of Two Pesos were Marno McDermott and Jim Blacketer. Today, Marno McDermott is the Chairman of the Board of Two Pesos and Thomas Dietrich is the President. Blacketer holds no position within Two Pesos at this time but does own 5.4% of Two Pesos' outstanding stock.

Two Pesos opened its first restaurant in December 1985 and later opened a number of additional restaurants in Houston, Dal-

las/Fort Worth, Oklahoma City and elsewhere. Two Pesos has also granted franchises in various parts of the country.

Taco Cabana's claims against Two Pesos can be divided into two general categories. In the first category, Taco Cabana claims that the appearance of Two Pesos' restaurant is so similar to the Taco Cabana restaurants that customers are likely to be confused and that Two Pesos copies Taco Cabana's trade dress. Two Pesos denies these claims.

In the second category, Taco Cabana claims that Two Pesos wrongfully acquired Taco Cabana's proprietary information or trade secrets in the design and operation of Two Pesos' restaurants. Two Pesos denies that claim.

III. CONTENTIONS OF THE PARTIES

A. Contentions of the Plaintiffs

Plaintiffs Taco Cabana claim that since 1983 the public has come to associate them and their restaurant goods and services with a distinctive and unique fast food restaurant concept.

In the latter part of 1984 or early 1985, Marno McDermott and Jim Blacketer decided to start a fast food Mexican restaurant chain that Taco Cabana claims was based on its design. Taco Cabana claims that Jim Blacketer and Marno McDermott improperly obtained at least one set of Taco Cabana's architectural plans, had copies made and distributed all or portions of it to at least its architectural firm, its general building contractor and its kitchen designer. Taco Cabana claims that the intent of the creators of Two Pesos was to copy the Taco Cabana concept which had proved so successful.

Taco Cabana further claims that in 1985, Two Pesos interviewed at least two of Taco Cabana's general store managers and hired one of them with the intention that the manager disclose confidential proprietary information to Two Pesos concerning Taco Cabana's business operations systems, the sources of Taco Cabana's supplies, and other information which bore on the success of Taco Cabana operations. Taco Cabana also claims their former store manager disclosed this information.

Since December 1985, Two Pesos has opened twenty-six restaurants. Taco Cabana claims these Two Pesos restaurants are likely to cause confusion with Taco Cabana's fast food cafes. Two Pesos has also granted companies the right to develop about 95 stores in various parts of the United States. Taco Cabana claims the existing Two Pesos restaurants and franchise stores employ a trade dress that is confusingly similar to their restaurants, and will continue to do so unless they are required by law to modify their trade dress.

Taco Cabana claims that Two Pesos has received substantial revenues from the operation of its company and franchise restaurants, much of which would have come to Taco Cabana but for Two Pesos' alleged misappropriation and unfair competition in the marketplace.

Taco Cabana claims that Two Pesos obtained improper access to Taco Cabana's trade secrets, methods and format of operation, and other proprietary information. Taco Cabana claims Two Pesos' acts are unfair competition and are likely to lead the public to believe that the goods and services of Two Pesos originated from or are associated with Taco Cabana.

~~Taco Cabana claims that Two Pesos obtained improper access to Taco Cabana's trade secrets, methods and format of operation, and other proprietary information. Taco Cabana claims Two Pesos' acts are unfair competition and are likely to lead the public to believe that the goods and services of Two Pesos originated from or are associated with Taco Cabana.~~

Taco Cabana further claims that Two Pesos' alleged misappropriation of Taco Cabana's trade dress and proprietary information has caused them serious damage and injury. Taco Cabana claims to have been foreclosed from a number of lucrative markets and to have incurred a substantial amount of lost opportunities due to Two Pesos' alleged wrongful actions.

Taco Cabana's *expert Gelb* estimates damages in lost profits in Houston are at least ~~\$4,716,000~~ \$4,384,000. Taco Cabana also claims to have suffered lost income because of Two Pesos rapid development (29 restaurants in less than 33 months). If Two Pesos was treated as a franchisee for the purpose of computing damages, Taco Cabana claims a reasonable estimate of damages due to loss of income would be at least ~~\$13,288,000~~ \$11,846,400. *The Gelb total is \$16,230,400. Brinker estimated damages as being between \$12,600,000 and \$20,500,000; and Romano set damages between \$22,000,000 and \$35,600,000.*

Taco Cabana claims that they were further damaged by other factors including lost value of Taco Cabana's stock, public perception of Taco Cabana as the copycat, competition for prime real estate, and lost opportunities in markets outside of Houston.

Taco Cabana claims that Two Pesos has intentionally and willfully misappropriated Taco Cabana's trade dress and proprietary information. Taco Cabana claims that such intentional and willful

acts support an award for a substantial increase in the damages in order to punish Two Pesos for their acts.

B. Contentions of the Defendant

1. Regarding The Trade Dress Issues

Two Pesos claims it sufficiently and reasonably differentiated itself from Taco Cabana and that the Two Pesos name is not likely to be confused with Taco Cabana. Two Pesos claims that their signs inside and outside the restaurant, their blue building color, decor, building layout and design, all distinguish Two Pesos from Taco Cabana.

Two Pesos claims that Taco Cabana's first restaurant, a converted Dairy Queen, demonstrates that success is dependent on factors other than the features that Taco Cabana asserts as trade dress in this action. Two Pesos claims that the restaurants that were opened by Taco Cabana in 1983 through at least 1985 had different overall trade dress than is asserted in this case, including, but not limited to, either no outside patios or small outside patios, blue awnings, no outside umbrellas and no striping at the top of its buildings.

Two Pesos further claims that up until the time that Two Pesos opened its first restaurant in December of 1985, Taco Cabana had not established any significant secondary meaning in the trade dress asserted in this case, in part because of the modifications made to the asserted trade dress before and after that time.

Two Pesos claims that Taco Cabana destroyed whatever secondary meaning it might have had when ownership of the former Taco Cabana restaurants was split. A group headed by Michael Stehling took ownership of four of the existing nine Taco Cabana

restaurants under a different name, TaCasita, but with the same trade dress asserted here. Therefore, Two Pesos claims that the consuming public cannot associate the asserted trade dress with only Taco Cabana, but that the public will necessarily associate the asserted trade dress with TaCasita, a different ownership entity, as well as with Taco Cabana.

Two Pesos claims that Taco Cabana forfeited any rights of exclusivity to the asserted trade dress by permitting TaCasita to use the same trade dress. Two Pesos claims that TaCasita operates independently of Taco Cabana and Taco Cabana does not and cannot control the quality of the products or services of TaCasita or the menu items of TaCasita and likewise, TaCasita does not and cannot control the quality of the products and services of Taco Cabana or the menu items of Taco Cabana.

Two Pesos claims that Taco Cabana has had several different restaurant looks, has changed its original trade dress, continues to do so, and has agreed to change its trade dress in the future, thereby preventing any secondary meaning.

Two Pesos further claims that any features in a Taco Cabana restaurant that were adopted by Two Pesos were rightfully adopted because the law encourages copying of functional features to foster competition. Two Pesos asserts that any features that are common between Two Pesos and Taco Cabana are features that are either functional or not distinctive.

Two Pesos claims that Taco Cabana has no secondary meaning associated with the trade dress asserted in this lawsuit, that there has been no significant actual confusion of reasonable and prudent consumers, and that there is not a likelihood that a sig-

nificant portion of consumers are likely to be confused that a Two Pesos restaurant is a Taco Cabana restaurant.

Two Pesos claims that they have never intended to cash in on the goodwill of Taco Cabana and that Taco Cabana is not entitled to any monetary recovery because it has no legally protectable rights that have been infringed by Two Pesos, no substantial actual confusion has existed, and any confusion that has existed has resulted from similarities in functional features or from reasons that are not based on the trade dress asserted in this case.

2. Regarding The Trade Secret Issues

Two Pesos claims that Taco Cabana has no protectable trade secrets because it took no precautions to assure confidentiality or secrecy, and that Two Pesos did not receive any confidential trade secret information of Taco Cabana under any circumstances that would create an obligation of confidence or restriction on use.

Two Pesos claims that architectural plans for Taco Cabana restaurants are available for inspection and copying by the public and that information contained within documents available for public inspection is not a trade secret. Two Pesos claims they were given a copy of architectural drawings of one Taco Cabana restaurant by a third party who was under no obligation of confidentiality to Taco Cabana, and therefore Two Pesos came into the possession of Taco Cabana architectural drawings lawfully.

IV. ADMITTED FACTS

The following are facts admitted to by all parties. You are to consider the following to be undisputed.

The following restaurants opened under the name Taco Cabana on the dates indicated.

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
1	9/21/78	3310 San Pedro San Antonio, Tx. 78212	Company Owned
2	4/14/83	5630 Wurzbach San Antonio, Tx. 78238	Now TaCasita
3	3/9/84	8629 Perrin Beitel San Antonio, Tx. 78217	Company Owned
4	8/23/84	1633 S.W. Military Dr. San Antonio, Tx. 78221	Now TaCasita
5	7/1/85	4205 Fredericksburg San Antonio, Tx. 78201	Company Owned
6	10/1/85	15925 San Pedro San Antonio, Tx. 78232	Company Owned
7	1/31/86	8415 Research Austin, Tx. 78758	Now TaCasita
8	1/3/86	9603 San Pedro San Antonio, Tx. 78216 (San Pedro/410)	Company Owned
9	2/28/86	5540 Richmond Houston, Tx. 77056	Now TaCasita

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
10	5/14/87	711 E. Ben White Austin, Tx. 78704	Company Owned
11	7/22/87	3071 W. Northwest Hwy Dallas, Tx. 75220	Company Owned
12	10/14/87	3923 Lemmon Avenue Dallas, Tx. 75219	Joint Venture
13	10/28/87	700 N. Loop West 610 Houston, Tx. 77701	Company Owned
14	11/25/87	135 Long Street San Marcos, Tx. 78666	Company Owned
15	12/5/87	9220 Gulf Freeway Houston, Tx. 77017	Franchise
16	2/2/88	1777 Lee Trevino El Paso, Tx. 79935	Franchise
17	2/22/88	6890 Harrisburg Houston, Tx. 77011	Company Owned
18	3/14/88	6600 Camp Bowie Fort Worth, Tx. 76116	Joint Venture
19	4/25/88	6615 E. Northwest Hwy Dallas, Tx. 75231	Joint Venture

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
20	7/18/88	5866 N. Mesa El Paso, Tx. 79912	Franchise

Two Pesos has opened the following restaurants:

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
1	12/10/85	1611 Gessner Houston, Texas (Gessner/Eddystone Dr.)	Company Owned
2	2/17/86	8101 S. Main Houston, Texas	Company Owned
3	5/1/86	Galveston Place Shopping Center Galveston, Texas	Company Owned
4	6/2/86	8902 Richmond Houston, Texas	Company Owned
5	6/24/86	3909 Kirby Houston, Texas (Kirby/SW Freeway)	Company Owned
6	8/11/86	10 West FM 1960 Houston, Texas (I-45/Northwood Shopping Center)	Company Owned

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
7	10/19/86	8900 Wadsworth Blvd. Denver, Colorado	Franchise
8	2/26/87	Highway 290 Houston, Texas	Company Owned
9	4/21/87	Westheimer/Nantucket Houston, Texas	Company Owned
10	5/18/87	4355 Camp Wisdom Road Camp Wisdom Rd/ Cockrell Hill Dallas, Texas	Company Owned
11	6/1/87	Military Highway Norfolk, Virginia	Franchise
12	6/20/87	1505 N. Collins Arlington, Texas Arlington, Texas	Company Owned
13	8/19/87	12475 E. N.W. Highway Dallas, Texas	Company Owned
14	9/2/87	11079 Westheimer Westheimer/Wilcrest Houston, Texas	Company Owned
15	9/16/87	3700 S. Cooper Arlington, Texas	Company Owned
16	10/23/87	705 W. Bay Area Blvd. Webster, Texas	Company Owned

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
17	10/29/87	6695 Hillcroft Houston, Texas	Company Owned
18	12/16/87	Mesa Ave. at I-40 El Paso, Texas	Company Owned
19	1/8/88	Meridian Ave. at NW Hwy Oklahoma City, Oklahoma	Company Owned
20	1/12/88	7400 FM 1960 West Houston, Texas	Company Owned
21	1/28/88	Greenville at Alta Dallas, Texas	Company Owned
22	2/15/88	74th St. at Pennsylvania Oklahoma City, Oklahoma	Company Owned
23	3/31/88	Northwestern Ave. at I-44 Oklahoma City, Oklahoma	Company Owned
24	4/1/88	I-45 at Tidwell Houston, Texas	Company Owned
25	4/11/88	7669 Grapevine Hwy. (North Richland Hills) Fort Worth, Texas	Company Owned
26	4/17/88	412 Meridian at Reno Ave. Oklahoma City, Oklahoma	Company Owned

No.	Date Opened	Location	Type (Company owned Franchised Or Joint Venture)
27	4/28/88	1735 E. Southern Ave. Tempe, Arizona	Company Owned
28	6/24/88	1855 Piedmont Ave. NE Atlanta, Georgia	Type (Company owned Company Owned
29	8/6/88	Second Restaurant In Norfolk, Virginia	Franchise

V. QUESTIONS AND APPLICABLE LAW

You will be asked to return your verdict in this case in the form of answers to several questions concerning the fact issues in this case. These questions are numbered, and you will notice that certain questions on the special verdict form need to be answered only if you give a particular answer to some earlier question. For example, if you answer the first question "NO", you need not answer question number 2; but if you answer question number 1 "YES", you go on to question 2.

I will now go over the questions on the Special Verdict Sheet and give you instructions on the law applicable to your deliberations on each of those questions. Of course, you are to consider all my instructions as a whole and not single out any particular instruction.

In answering the questions on the Special Verdict Sheet, you are instructed that you are to make your findings in accordance

with the preponderance of the evidence in this case, and the law as given to you in these instructions.

A. Question Number 1

Taco Cabana is seeking to recover damages from Two Pesos for trade dress infringement. You must determine whether or not Taco Cabana has a trade dress, whether it is protectable, then, whether it has been infringed by Two Pesos.

Question Number ~~One~~ 1 asks you to determine whether Taco Cabana has a trade dress. You are instructed that "trade dress" is the total image of the business. Taco Cabana's trade dress, may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniforms and other features reflecting on the total image of the restaurant.

B. Questions Number 2 through 4

Like a trademark or service mark, trade dress is used to identify the restaurant with the products it serves. It is through actual use of a trade dress in connection with a product or service that one establishes protectable trade dress rights.

Questions Number 2 through 4 call upon you to determine whether Taco Cabana's trade dress is protectable. In order to determine whether Taco Cabana has protectable rights in its trade dress you must consider:

1. functionality

2. distinctiveness
3. secondary meaning

I will instruct you as to what each of the above terms means and how they are related to each other. However, you must remember that in considering these questions, you are to consider the trade dress as a whole rather than individual elements. That is, you must analyze the overall trade dress from the standpoint of functionality, distinctiveness and secondary meaning.

Question Number 2 asks you to determine whether Taco Cabana's trade dress, taken as a whole, is functional or non-functional. The doctrine of functionality is basically an attempt to distinguish between design features of the restaurant which serve a purely ~~functional~~ *functional* purpose, as opposed to those features that are merely arbitrary. The law allows the copying of functional features in the public interest of enhancing competition. Therefore, a trade dress which is functional may not be protected.

A trade dress or design feature is functional if its purpose is to merely facilitate the operation of the restaurant. In other words, if the trade dress is designed merely to have a useful function aimed at utility, it is considered functional and not entitled to protection. On the other hand, where a trade dress or design feature is not significantly related to the utilitarian function of the restaurant, but is merely an arbitrary embellishment primarily adopted for the purpose of identification and individuality, the trade dress or design feature is non-functional and is entitled to protection.

If Taco Cabana's overall trade dress is arbitrary and not selected to serve purely a functional purpose, it is protectable. Even if the

trade dress is made up of individual elements, some of which serve a functional purpose, so long as the combination of these individual elements which define Taco Cabana's trade dress is arbitrary, *it is protectable*. On the other hand, if you find that Taco Cabana's trade dress taken as a whole must be used by others in order to compete in the Mexican fast-food restaurant business, then you should find that Plaintiff's trade dress is functional and not protectable.

For example, each individual element of a house (such as the doors, windows, roofs, floors, walls, etc.) has a functional purpose; however, these elements (along with wallpaper, rugs, drapes, decorations and the like) can be arranged in a number of arbitrary ways, creating various interiors and elevations which give a house its own unique image or appearance. If you find that Taco Cabana has combined a number of functional and non-functional elements in an arbitrary manner such that the restaurant's trade dress, taken as a whole, is not functional, ~~when~~ *then* Taco Cabana's trade dress may be protectable.

In considering functionality of the trade dress you will consider individual design features of the restaurant. However, in determining whether Taco Cabana's trade dress as a whole is functional or non-functional, you are instructed to focus your consideration on the total image and not the functionality of individual elements. In other words, the inquiry into whether Taco Cabana's trade dress is functional or non-functional should not be addressed to whether individual elements fall within the definition, but whether the whole collection of elements taken together are functional or non-functional.

Question number 3 asks you to determine whether Taco Cabana's trade dress is inherently distinctive. Distinctiveness is a

term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants *and it is not descriptive and not functional*, then you should find that Taco Cabana's trade dress is inherently distinctive. If it is shown that Taco Cabana's trade dress does not distinguish its products and services from those of other restaurants, then you should find that Taco Cabana's trade dress is not inherently distinctive.

Question number 4 asks you to determine whether Taco Cabana's trade dress has acquired secondary meaning. The prime element in a finding of secondary meaning is a mental association in the mind of the public between the products or services being offered and a particular source of that product or service.

In determining whether Taco Cabana's trade dress has acquired secondary meaning, you ~~must~~ *may* consider among other things, the length and manner of its use, promotion and advertising involving the trade dress, the volume of sales, instances of actual confusion, and survey evidence. To establish secondary meaning Taco Cabana must show that customers purchase their service and products because the presence of the claimed trade dress indicates to the customers a connection between the service or products and Taco Cabana.

You are instructed that Taco Cabana's trade dress has "secondary meaning" if it has acquired distinctiveness as a result of extensive use by Taco Cabana, such that the public would recognize goods or services associated with that trade dress as originating from Taco Cabana. In order to find that Taco Cabana's trade dress has acquired secondary meaning, Taco Cabana must have shown

that a significant number of the public associated the trade dress with Taco Cabana.

If you find that Taco Cabana has a trade dress, that the trade dress taken as a whole is non-functional, and that the trade dress is inherently distinctive or has acquired secondary meaning, then Taco Cabana has proven its claim that it has a protectable trade dress.

C. Question Number 5

The central inquiry in a trade dress infringement action is whether the Defendant is passing off his goods or services as those of the Plaintiff by virtue of substantial similarity between the two, leading to confusion on the part of potential customers. Question Number 5 asks you to determine whether the alleged infringement of Taco Cabana's trade dress creates a likelihood of confusion on the part of ordinary customers as to the source of ~~the goods or association of the restaurant's goods or services~~.

Taco Cabana must prove, as the essential element of its action for trade dress infringement, that the alleged infringement creates a likelihood of confusion on the part of ordinary customers as to the source of the goods being offered. If you find that a likelihood of confusion exists between Taco Cabana and Two Pesos as to the source *or association* of the products and services offered, then Taco Cabana has proven its claim that its trade dress has been infringed by Two Pesos.

In your determination of whether there is a likelihood that customers might associate or confuse a Two Pesos restaurant with a Taco Cabana restaurant you should consider the following:

- (a) the type of trade dress at issue;
- (b) the similarity between Taco Cabana's claimed restaurant trade dress and Two Pesos' restaurants;
- (c) the similarity of products or services provided by Taco Cabana and Two Pesos;
- (d) whether Taco Cabana's and Two Pesos' businesses are in market competition for the same customer;
- (e) whether Taco Cabana and Two Pesos are likely to use the same advertising media;
- (f) Two Pesos' intent in its adoption of its restaurant trade dress; and;
- (g) instances of actual confusion.

One of the factors you are to consider in determining a likelihood of confusion is the similarity between Taco Cabana's trade dress and Two Pesos' trade dress. Similarity of appearance is to be determined on the basis of the overall effect of the parties' trade dress.

Another factor you must consider in determining whether a likelihood of confusion exists is the intent of Two Pesos in using the trade dress. The intent of Two Pesos is a critical factor in determining whether there is a likelihood of confusion. You are instructed that should you find, from the evidence presented, that Two Pesos adopted Taco Cabana's trade dress with the intent of receiving benefit from Taco Cabana's reputation or goodwill, this fact alone may justify an inference of confusing similarity between Taco Cabana's and Two Pesos' restaurants.

Actual confusion is another factor you are to consider in determination of a likelihood of confusion. You are instructed to give special consideration to evidence presented regarding actual confusion. The existence of instances of actual confusion is the best evidence of a likelihood of confusion and by itself may support a finding of a likelihood of confusion.

D. Question Number 6

Question number 6 asks you to determine whether Taco Cabana lost its protectable trade dress rights by failure to exercise supervision and control over its licensee, TaCasita, to make sure that the quality of the goods or services are not inferior to the goods sold or services provided by Taco Cabana.

Protectable trade dress rights may be lost by certain conduct of the owner. When the owner of a claimed trade dress permits or licenses another to use the trade dress, the owner has a duty to exercise *enough* supervision and control over the licensee to make sure that the quality of the goods or service of the other party are not inferior to the goods sold or services provided by the trade dress owner. Failure to ~~exercise~~ *maintain the quality by exercising adequate* supervision and control over the licensee *may* results in a loss of trade dress rights. *You may consider the prior relationship of the Stehling brothers and their mutual awareness of each other's quality control procedures in determining the adequacy of the supervision.*

Defendant Two Pesos has raised the defense of loss of trade dress rights by Plaintiff Taco Cabana as a result of the cross-license agreement between the Stehling brothers. Two Pesos claims that the license agreement failed to adequately provide for control to assure that goods or services offered under the claimed

trade dress are of equal quality. Two Pesos has the burden to prove this defense by a preponderance of the evidence.

If you find that Taco Cabana did exercise *adequate* supervision and control over TaCasita ~~and~~ to make sure the quality of its goods or services are not inferior to those of Taco Cabana, then Two Pesos has not proven its defense of loss of trade dress rights. ~~On the other hand, if~~ If Taco Cabana has not lost its trade dress rights and those rights have been infringed by Two Pesos, then you must determine whether Taco Cabana was damaged by Two Pesos' infringement. Question Number 7 asks you to make that determination.

E. Question Number 8 through 13

Taco Cabana has alleged that Two Pesos misappropriated Taco Cabana's proprietary information or trade secrets. Two Pesos had denied these allegations.

Two Pesos has raised the defense that the alleged trade secrets claimed by Taco Cabana do not constitute trade secrets, as the subject matter of the alleged proprietary information is generally known in the industry. Further, Two Pesos raised the defense that Plaintiff has waived any claim of trade secret by failing to take adequate measures to keep such information secret.

You are instructed that a trade secret is a formula, pattern, device or compilation of information used in one's business which gives the business an opportunity to obtain an advantage over competitors who do not know or use it. A trade secret may include certain types of customer and supplier lists, methods of doing business, a process, equipment, and blueprints and plans. How-

ever, matters of general knowledge in an industry may not be protected by a party by claiming it is a trade secret.

You are instructed that the law requires that a plaintiff prove, by a preponderance of the evidence, the following elements in an action for trade secret misappropriation:

- (a) the existence of a trade secret;
- (b) the breach of a confidential relationship or the improper discovery of a trade secret;
- (c) the use of a trade secret; and
- (d) that the plaintiff has been damages [sic] as a result of the use of the trade secret.

Question number 8, 9 and 10 asks you to determine whether a trade secret exists. ~~you~~ You are instructed to answer these questions by referring to the definition of trade secret given to you above *but recognizing that the law does not require absolute secrecy and that the filing of plans with a city does not make them public information.*

Two Pesos will be held liable for the use of Taco Cabana's trade secret if Two Pesos discovers the secret by improper means, or the disclosure or use constitutes a breach of confidence. Question Number 11 asks you to determine whether Two Pesos breached a confidential relationship or discovered a trade secret of Taco Cabana improperly.

You are instructed that the discovery of another's trade secret by improper means subjects that person to liability. In general,

improper means are means which fall below the generally accepted standards of commercial morality and reasonable conduct. What constitutes improper will always be dependent upon the time, place and circumstances of a particular case. However, it may be generally stated that improper conduct is that which appropriates a trade secret through deviousness under the circumstances.

One is liable for disclosure or use of a trade secret (1) if the secret is discovered by improper means or (2) the disclosure constitutes a breach of confidence. You are instructed that the term "confidential relationship" means a form of relationship between parties where the parties know or should know there is confidence and special trust.

Question Number 12 asks you to determine whether Two Pesos used Taco Cabana's architectural plans, kitchen equipment layout and design, or kitchen and restaurant operating procedures.

Question Number 13 asks you to determine whether Taco Cabana was damaged as a result of Two Pesos' use of Taco Cabana's architectural plans, kitchen equipment, layout and design, or kitchen and restaurant operating procedures.

F. Questions Number 14 through and 15

Questions Number 14 ~~through~~ and 15 deal with damages.

The fact that I am instructing you on the subject of damages does not mean that Taco Cabana is or is not entitled to recover damages. I am expressing no opinion one way or the other. These instructions are only to guide you if you find from a

preponderance of the evidence that Taco Cabana is entitled to recovery of damages.

Taco Cabana has the burden of establishing the amount of actual damages, if any, that were suffered. Damages must be determined with reasonable certainty from the evidence presented. Mathematical precision need not be shown, however, you are not to guess or speculate as to damages.

If you answered Question Number ~~12~~ 13, "YES", you are asked to answer Question Number 14.

Question Number 14 asks you to determine the value to Taco Cabana of the trade secret or secrets misappropriated by Two Pesos.

If you answered questions number ~~4 through~~ 7 "YES", you have found from a preponderance of the evidence that Taco Cabana has a trade dress which is protectable and which was infringed by Two Pesos.

A finding of trade dress infringement does not automatically entitle Taco Cabana to damages. In any determination of remedies to be awarded Taco Cabana, you must review the nature of the conduct of the parties.

Taco Cabana must show that it has suffered actual damages to be awarded damages. Actual damages may include damage to Taco Cabana's reputation, lost profits and lost income.

A. Lost Profits

In arriving at the amount of the award, you should include any damages suffered by Taco Cabana because of lost profits; that is

to say profits which Taco Cabana would have made, but for Two Pesos' unlawful conduct.

Taco Cabana presented evidence on lost profits. It is Taco Cabana's assertion that it has been effectively precluded from establishing a greater presence, particularly in the Houston market, as a result of the "head start" Two Pesos received from the alleged trade dress infringement.

If you find, from a preponderance of the evidence in the case, that the damages to Taco Cabana, such as a loss in profits, was proximately caused by Two Pesos' unlawful conduct, then the fact that it may be difficult to precisely determine Taco Cabana's lost profits should not affect Taco Cabana's recovery, particularly if Two Pesos' conduct caused the difficulty in determining the precise amount.

On the other hand, Taco Cabana is not ~~the~~ to be awarded purely speculative damages. An allowance for lost profits may be included in the damages awarded only where there is some reasonable basis in the evidence for determining that Taco Cabana suffered lost profits, even though the amount of such loss is difficult to ascertain.

B. Lost Income

Taco Cabana presented damage models which treated Two Pesos' company-owned stores and Two Pesos' franchisees as if they were franchisees of Taco Cabana.

If you find, from a preponderance of the evidence, that damages to Taco Cabana, resulting in a loss of income, were proximately caused by Two Pesos' unlawful conduct, then again you are instructed that the fact that it may be difficult to precisely

determine Taco Cabana's recovery *should not affect Taco Cabana's recovery*, particularly if Two Pesos' conduct caused the difficulty in determining the precise amount.

You are again cautioned that Taco Cabana is not to awarded purely speculative damages. An allowance ~~for~~ for lost income may be included in the actual damages awarded only where there is some reasonable basis in the evidence for determining that Taco Cabana suffered lost income, even though the amount of such loss is difficult to ascertain.

C. Loss of Goodwill

In determining general compensatory damages, you may consider whether Taco Cabana suffered any measurable loss to its goodwill.

If you find that Taco Cabana's goodwill has been damaged by injury to its general business reputation, you may assess such compensatory damages as were shown by the evidence. The measure of Taco Cabana's damage is the difference between such goodwill before and after the acts of Two Pesos.

IV. [sic] THE VERDICT

Ladies and gentlemen, the court is not only reading these instructions to you but they are written and you will be permitted to take a copy with you to the jury room. I wish to emphasize to you that every single sentence and word of these instructions is important in your deliberations, and you should not, and I order you not to, attach any particular significance to any particular part or any particular sentence or word of the instructions. It should be considered by you as a whole and your deliberations of the facts

should be conducted within the context of the law as given to you in the entirety of these instructions.

Keeping in mind each and every one of the instructions and definitions contained in this charge and applying each of them to the facts of this case as you find the facts to be, you will answer the questions on the verdict sheet attached to these instructions. The answers to these questions must be based upon what you have found to be *facts based on* a preponderance of the evidence.

I further instruct you, ladies and gentlemen, as to your verdict and as to each of the questions I have asked you, you must agree to your verdict and to the answer to each of the questions asked.

This concludes what I have to say to you, ladies and gentlemen. You may take these instructions with you to the jury room, as well as the exhibits which the court has admitted into evidence. Attached to these instructions are the questions that the court asked you. You will write your answer to each of these questions. The answer sheet will be signed by the foreperson and, at the conclusion of your deliberations, returned to the court along with these instructions. _____, I believe I will ask you to serve as foreperson of our jury, if you please.

DATE

FOREPERSON

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
September 26, 1988
9:30 a.m.

10 VOLUME I
11

12 TRANSCRIPT OF VOIR DIRE PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15

16
17
18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

21
22
23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[THE DISTRICT COURT]

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4 Two Pesos has brought counterclaims against Taco
5 Cabana claiming that Taco Cabana hampered Two Pesos' ability to
6 compete by improperly bringing this lawsuit and by interfering
7 in prospective contractual relationships between Two Pesos and
8 at least one prospective franchisee. Taco Cabana denies that
9 it has done anything improper.

10 Two Pesos has also brought a counterclaim seeking
11 a declaration that Taco Cabana's trade dress is not
12 protectable. Taco Cabana denies that claim.

13 Now, basically and generally speaking, that's
14 what the lawsuit is about. Both of these companies are engaged
15 in the fast food Mexican food business.

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IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Taco Cabana International, Inc.,	§	
and Taco Cabana, Inc.	§	
Plaintiff,	§	
	§	
vs.	§	C.A. No. H-87-0026
	§	
Two Pesos, Inc.,	§	
Defendant.	§	

ORDER

Pursuant to Rule 58 of the Federal Rules of Civil Procedure, it is hereby:

ORDERED, ADJUDGED and DECREED that the Jury's October 26, 1988, Special Verdict awarding \$150,000 to Taco Cabana for Two Pesos' misappropriation of its trade secrets and \$934,300 to Taco Cabana for Two Pesos' infringement of Taco Cabana's trade dress is entered this date. It is further

ORDERED, ADJUDGED and DECREED that having determined from the testimony of the witnesses and from the evidence presented during the trial that Two Pesos intentionally and deliberately infringed Taco Cabana's trade dress, Taco Cabana is awarded damages of \$1,868,600 for trade dress infringement along with the \$150,000 for trade secret misappropriation. The total damage award is \$2,018,600. It is further

ORDERED, ADJUDGED and DECREED that all the following changes be made to all Two Pesos' restaurant [sic] in operation in Texas as of the date of this Final Judgment:

(1) Exterior - Install a step-up or other roofline structure which eliminates the "step-down" effect between the two box silhouette structures as well as the drive-through roofline (make all roof elevations of the same height).

(2) Exterior - Eliminate the stripes around the top of the building and use only white neon lighting if any neon lighting is used.

(3) Exterior - Change to a solid color awning by painting existing awnings or replacing them with solid color awnings.

(4) Exterior - Install at least three false or painted windows on the exterior side walls of the restaurants or, alternatively, use the trade dress of Two Pesos' Phoenix store on the side walls of the restaurants.

(5) Interior - Paint the front face of the pickup counter and both sides of the wall between the interior dining and the interior patio white or the grey/green color used in the Two Pesos Tidwell Street restaurant in Houston. It is further

ORDERED, ADJUDGED and DECREED that Two Pesos display a sign both on the interior and exterior of all Two Pesos restaurants which states the following:

NOTICE

TACO CABANA originated a restaurant concept which Two Pesos was found to have unfairly copied. A Court Order re-

quires us to display this sign to inform our customers of this fact to eliminate the likelihood of confusion between our restaurants and those of TACO CABANA.

These signs shall have one inch black letters on a white background. The exterior sign shall be prominently placed in the area of the customer's entrance and the interior sign shall be prominently placed in the ordering area. Both signs shall be in place in all Two Pesos restaurants within 30 days of this Final Judgment and shall remain in place for at least one year. It is further

ORDERED, ADJUDGED and DECREED that all of the above changes be completed within eighteen months on Two Pesos' restaurants in operation in Texas as of the date of the Final Judgment and that all of the above changes be completed on existing Two Pesos' restaurants in Texas at the rate of at least ten restaurants per six months beginning with the Houston Two Pesos' restaurants. It is further

ORDERED, ADJUDGED and DECREED that with respect to any Two Pesos' restaurants which are not yet in operation as of the date of this Final Judgment and, before any such stores commence operation, that all of the changes (1) through (5) above be made in addition to all of the following changes:

(7) Exterior - Make the outside doors flush with the exterior walls or with an exterior projecting rectangular vestibule.

* (6) — missing.

(8) **Exterior** - Eliminate garage doors on two of the three sides between inside and outside patios. This permits an exterior patio opening fully on the side where the garage doors are located. The side having the garage doors is optional. As an alternative to the elimination of the garage doors, design the interior patio in a shape other than a square or rectangle, such as circular, elliptical or the like (~~see~~, e.g., the shape of the Sombrero Rosa inside patio).

(9) **Interior** - Eliminate the oblique order counter and install it parallel to or at right angles to the sides of the building. It is further

ORDERED, ADJUDGED and DECREED that the Defendant shall report in writing to the Court the progress of all the changes ordered to existing restaurants on a quarterly basis until all such changes to Defendant's company and franchise restaurants in operation in Texas as of the date of this Final Judgment have been completed. It is further

ORDERED, ADJUDGED and DECREED that having determined that this case is exceptional, in view of the deliberate infringement and misappropriation of Taco Cabana's trade dress by Defendant Two Pesos, Plaintiffs are awarded their attorney's fees in the prosecution of their trade dress claims and in defense of Defendant's dismissed counterclaims, the amount of such attorney's fees to be determined at a hearing set for January 23, 1989, at 9:30 a.m. at Courtroom No. 6, 515 Rusk, Houston, Texas.

Signed this 30th day of December, 1988, at Houston, Texas.

s/ John V. Singleton
UNITED STATES DISTRICT JUDGE

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Taco Cabana International,
Inc., and Taco Cabana, Inc.

versus

Two Pesos, Inc.

Civil Action
No. H-87-0026

Houston, Texas
September 27, 1988
9:30 a.m.

VOLUME II

TRANSCRIPT OF TRIAL PROCEEDINGS

BEFORE

THE HONORABLE JOHN V. SINGLETON, JR.

AND A JURY

COURT REPORTER:

SUZANNE W. FORET
515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

PROCEEDINGS RECORDED BY STENOGRAPHIC
MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[NORMAN BRINKER]

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3 Q. Based on your experience, Mr. Brinker, what makes for a
4 successful restaurant concept?

5 A. Gosh, I've had a lot of people ask me that. My standard
6 answer is I say, "Well, I can tell you some things that might
7 not be so good. But get it open and get it operating and then
8 I'll tell you whether it's successful."

9 It's very difficult. It's very difficult. There's a
10 magic.

11 Take your own individual situation. You look around
12 at the restaurants you go to. Some you enjoy. You can't quite
13 put your finger on it, but you know some things. You know that
14 it will be consistent. You know you'll have good price value.
15 You know the people will be friendly. You know the food will
16 be good. You know the restaurant and facility will be clean.
17 Those things you know.

18 But those restaurants that are really successful, it
19 has something else about it. It's a place where you feel
20 comfortable. It's a place I like. It's a place I enjoy. And
21 when I leave, for whatever reasons, my total experience is well
22 worth the amount of money I've paid for that experience.

23 Q. How does that relate to trade dress as you understand that
24 term?

25 A. Well, trade dress is the total concept or precept that you

[71]

1 experience. It's the method of service, the ambiance. It's
2 the way the employees look. It's how the food is delivered.
3 It's how the food is prepared. It's the palatalizing of the
4 food. And certainly the location. Color.

5 Color is interesting because in today's world you
6 cannot say, we'll have a certain color because you'll go from
7 location to location and city to city. They may say, no, we
8 have city motif and we want you to follow this.

9 Even without that, you'll still try to have a
10 similarity sufficient to let people know that this belongs to
11 this particular family.

12 For example, in Chili's we have plaster, plaster
13 buildings, gray buildings, white buildings, although we try to
14 get the green brick. But we have enough similarity
15 nonetheless.

16 Carillon Center is quite different. It's in a center.
17 It's quiet. It's not free standing. That's not our first
18 choice.

19 But we like the personal identification, which makes
20 our trade dress stronger. In many cases you can't do that.
21 But you still have enough for people to understand who you are.

22 Q. Are you talking about outside only or inside?

23 A. Inside is easier. Inside you can do a little better job.
24 You may have to have a little different configuration because
25 of the dimensions if you're going in an inland building. It's

[72]

1 different from a free standing building. But it's both inside
2 and outside.

3 Inside will be decor. It will be benches or seats or
4 booths or what have you.

5 Q. Turning to another issue: When did you first hear about
6 Taco Cabana?

7 A. I heard — the first time I really heard about it was the
8 Spring of 1986. And a friend of mine, Sam Barshop (spg), who
9 is the chairman of La Quinta, called me.

10 He said, "Norman, I've got something. I want you to
11 come down and look at it."

12 I said, "What is it?"

13 He said, "It's Taco Cabana."

14 He said, "Boy, it's something. If you come down here,
15 I'd like to join you and we'll get a franchise and we'll do
16 it."

17 I said, "No. I've got all I can do. In fact, I'm
18 tied up right now building Chili Burgers."

19 But then I heard it from two or three other people.

20 And then mutual friends said, "I'd like you to meet Felix
21 Stehling down in San Antonio." So I then went down and
22 subsequently met him in August.

23 Q. At the time you met Mr. Stehling, did you also look at some
24 of the Taco Cabana cafes?

25 A. Yes, sir. We went and looked at most — maybe all, I don't

1 recall — but four or five in San Antonio.

2 Q. After you had the opportunity to look at them, what did you
3 think of them?

4 What perception did you have of what we've referred to
5 here as the Taco Cabana concept?

6 A. Well, I've seen an awful lot of restaurants, but I was
7 impressed. I was really quite surprised. All the things Sam
8 Barshop said — I have such high regard for him — he described
9 them quite well.

10 The thing that surprised me was the excitement level,
11 the pleasantness. The traffic, of course, was just incredible.
12 As a matter of fact, the volume they were doing was, oh, 50 to
13 60 percent more approximately in an average volume than
14 McDonald's with about the same square footage. I was really
15 quite impressed. I was impressed with the food and the
16 pricing. And the overall ambiance made me feel quite
17 comfortable.

18 Q. Is McDonald's sort of the Belle Starr of successful
19 restaurants?

20 A. I think it's more than Belle Starr. That's the Greg
21 Louganis of the restaurant industry.

22 Q. Well, what made you think trade dress was so remarkable
23 other than the fact that heavy traffic came through?

24 A. Well, you know, in this business you can't separate out any
25 one thing, as I mentioned before. It's a total of everything.

1 Now, people will start dissecting. I keep telling
2 our people, our supervisors, when they go to restaurants, don't
3 try to dissect everything. How do you feel? What's your
4 overall impression?

5 So related to that, for whatever the reasons were, it
6 was an experience that made me feel very good and made me able
7 to identify with them and understand. And I understood very
8 well then why people liked them so well. It was very casual.
9 It was in keeping with the demographics — certainly the
10 demographics — and the geography. And it all came together to
11 make for an extremely pleasurable and worthwhile experience.

[NORMAN BRINKER]

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13 Q. Let me turn your direction, if I could, to these models
14 over here, Mr. Brinker, if I might.
15 You've seen these models before, have you not?
16 A. I just saw them a few minutes ago.
17 Q. Plaintiff's Exhibit 3, which is the one here on my left and
18 your right, and the one on my right and your left, is a replica
19 of a Two Pesos. One is the Gessner store, which is the first
20 Two Pesos. And this is built according to the plans of the
21 Taco Cabana 5.
22 Now, I'd like for you to talk to the jury, if you
23 could, about what it is that you see similar or dissimilar in
24 these restaurants as to the trade dress and that sort of thing.
25 I'll sort of hold them up here, if I may.

1 Q. Well, the first thing — I mean to me it's incredible.
2 It's incredible with the background of the principals involved
3 in the Two Pesos why there has been no imagination.

4 They made them so similar. To look at them, the
5 footprint is almost identical. I mean, if you tried hard, you
6 could hardly make them dissimilar.

7 The seating is approximately the same. The entryway
8 is about the same. Even down to the number of people who are
9 in each area. There's a little bit of difference, but it has
10 nothing to do with trade dress.

11 Trade dress is what you feel, what you perceive, what
12 feeling you have.

13 You have the open counters. It's amazing. They even
14 come in at an angle on both of them. You have the openness
15 through here.

16 And then, of course, you have the menu. The menu is
17 fairly essential.

18 Now, whether or not this is green or white or pink or
19 blue has little to do with it because you have the different
20 colors as you see over here. Now, ideally — ideally — you
21 like to keep the same color over and over and over again so you
22 repeat in the customers' minds when you see a color, you know
23 what it is.

24 You can take even McDonald's. They will insist upon
25 the "m," but you've seen all kinds of differences in them as it

1 gets more difficult to get locations.

2 Then you have the openness. You even have the garage
3 doors that are the same. The awnings are about the same. The
4 pole signs are essentially the same with the main sign up here
5 and then a reader board. This may be rectangle and that being
6 square. But in the conceptualization of people that drive by,
7 they're identical.

8 Q. Let me ask you to direct your attention to this food
9 service area in the two, which is generally located in here.

10 What are the similarities or differences in there as
11 you see it between these two?

12 A. I just — essentially nothing. I mean, where this comes
13 out square, this come out at an angle. Essentially there's no
14 difference.

15 Q. While you're down there — if I can balance this up here,
16 I will.

17 Plaintiff's exhibits 447 and 448. And perhaps I'll
18 stand here out of the way and let you get on the other side.

19 These are the floor plans of the Taco Cabana 5, which
20 is the model over there on the far side of Taco Cabana.

21 This is the floor plan of the Two Pesos Gessner store.

22 Now, perhaps you can explain this in the context of
23 what you were talking about on the two models.

24 A. This is the — here's the entryway. And on one it comes
25 down —

1 Q. You're going to have to talk up a little bit.

2 A. This is the dining area. It's essentially the same.

3 There's no difference. You come over here for the service.

4 Then you have a smaller dining area almost identical except in

5 this one you come at an angle and this one is straight. This

6 meant that the inside was essentially the same. And then the

7 outside dining rooms are essentially the same again.

8 Here's the drivethru. It's just a layout. If you

9 took this and superimposed on that, essentially there would be

10 no difference.

11 Q. Now, taking the blue one or looking at the outside profiles

12 of these various restaurants, do you have an opinion as to the

13 similarities or differences of them?

14 You will note that these are essentially the same

15 direction of pictures on each of these various restaurants that

16 are shown on these photographs.

17 A. If you excluded the name, you simply couldn't tell because

18 you have different colors already. You've lost identification

19 to color because you — the only identifying — if a consumer

20 paid that much attention — he wouldn't know where he was. He

21 wouldn't know which one he was in. You have that confusion.

22 Q. You can resume your seat, if you would.

23 A. (Witness complies.)

24 Q. Now, the argument has been made that the name is enough to

25 make a difference. Do you have an opinion on that?

1 A. You know, it's an interesting phenomenon. I haven't ever

2 seen anything quite like this in my experience where the

3 ambiance and the concept, the patio concept, the dominance or

4 predominance of the opening doors or of the patio has

5 overshadowed the name.

6 Now, even excluding that, people will read the sign

7 certainly. But in this case that has overshadowed the name,

8 which is not to say I see Two Pesos or Taco Cabana. If you

9 paid that much attention, you would know certainly there must

10 be some difference. But what you really might be inclined to

11 think is that they're part of the same company.

12 I had — at one point at Steak & Ale we were

13 precluded from using "ale" in certain states, about nine. We

14 picked the name "Jolly Ox." I don't know. Here we're two

15 concepts; one Steak & Ale and one Jolly Ox. It was only a very

16 short time before everyone knew it was a Steak & Ale because

17 everything else came together. This is the way it is. We even

18 advertised as Steak & Ale. We never made ads for Jolly Ox.

19 People even knew we had run the Steak & Ale ads in Jolly Ox

20 territory because people knew what it was.

21 Q. You didn't specifically identify the two as related, but

22 people thought they were?

23 A. They knew they were after a while.

24 Q. Do you have an opinion as to whether this kind of

25 similarity as you testified to is likely to confuse the

1 consuming public as to the restaurants?

2 A. Oh, it will. There's no question.

3 Q. What's the harm, if you could explain to the jury, in this
4 to Taco Cabana, which was the first one with this concept?

5 A. Well, certainly there are a proliferation of restaurants.
6 You're trying to get your own identity, your own aura out.

7 The problem or the confusion is, number one, if you
8 don't have as good a product or you're not having a good
9 experience, that can cause you some problems.

10 But assuming they're both the same, then you simply
11 have the problem of you're precluded from expansion because
12 you're not going to have two of these on the same corner. If
13 one gets there ahead, because they're essentially the same, you
14 would be precluded from expanding, precluded from market
15 penetration.

16 And then that comes to the next step: you're
17 precluded from advertising or, as such, market penetration. So
18 it's a real unfortunate situation here.

19 Q. In the 1985-'86 period, how did you view the geographic
20 market that Taco Cabana had?

21 A. Geographic market, if I understand what you mean, is where
22 they would be nationally inclined to expand.

23 Q. In your view, did Taco Cabana have a market limited to the
24 city limits of San Antonio, or what was the depth of that
25 market as you viewed it?

[86]

1 A. If you look at a concept, you can say to yourself, "All
2 right. Within certain areas I know I have a high degree of
3 confidence. It will succeed."

4 As a matter of fact, when I came in with Chili's,
5 there were 20 restaurants and they were in about — in the
6 Southwest and two other cities. We were going around talking
7 to potential investors.

8 I said, "Now, we have not proven — we have not proven
9 — we can do well in Florida, we have not proven we can do well
10 in Southern California, and we have not proven we can do well
11 in the West." But we knew in the Southwest what we could do
12 because that was the psyche. That was the aura we had.

13 So back to Taco Cabana. You would know with a high
14 degree of profitability, meaning 95 percent, that anywhere in
15 Texas, in Southern Texas and I would say West Texas, including
16 El Paso, because the demographics, whether demographics
17 including the Hispanic population, Hispanic attitude, and then
18 on south.

19 So you could see — very quickly you could see 45, 50
20 restaurants in that geography with a high degree of confidence.

21 Now, if you move into Alabama, Oklahoma, Louisiana,
22 you would have some degree of confidence, and you would think
23 in Southern California. But if you just start talking about
24 North, Dallas on North, it has not proven itself yet.

25 Q. Are you aware, Mr. Brinker, of any actual confusion that

[87]

1 you've observed or heard about between Two Pesos and Taco
2 Cabana?

3 A. Well, I'm not a principal in this case. I haven't made it
4 my business to go around doing surveys. But just offhand, I've
5 had quite a number of comments, one as recently as Sunday.

6 Mr. Durkee: I'm going to object to that as hearsay.

7 The Court: I'll sustain the objection.

8 Mr. Gambrell: Let me rephrase the question.

9 The Court: All right.

10 By Mr. Gambrell:

11 Q. Without indicating specifically who, have you had instances
12 of confusion brought to your attention?

13 Mr. Durkee: I have the same objection.

14 The Court: Overrule that objection. You may answer
15 that question.

16 A. (Continuing) Yes, sir, I have. As I started to say, on
17 Sunday —

18 By Mr. Gambrell:

19 Q. Well, no. I think —

20 A. Yes, I have.

21 Q. He doesn't want you to go into detail about it.

22 Would you rate the level of confusion that you've
23 heard expressed to you as typical of any restaurants that
24 operate or higher or lower or what?

25 How would you characterize it?

[88]

1 A. I've never seen anything quite like it, because they're
2 identical in the consumer's mind.

3 Q. Do you have an opinion on whether there's a likelihood of
4 confusion between Taco Cabana and Two Pesos?

5 A. Not likely. There's a certainty.

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[89]

[NORMAN BRINKER]

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11 Q. Mr. Brinker, I think you testified you developed the Steak
12 & Ale concept?

13 A. Yes, sir.

14 Q. And how long did it take you to get your first restaurant
15 in operation?

16 A. From when?

17 Q. From when you started developing that concept.

18 A. It took about two years.

19 Q. Where did you get the concept?

20 A. When I left Jack-in-the-Box, my first move was to go into
21 the coffee shop business. I started a coffee shop in Dallas
22 called "Brink's," and operated it for about a year and realized
23 that that was a tough thing. It just wasn't for me. So I
24 started looking around and I said, "You know, what are the
25 problems?"

[100]

1 The problems are help early in the morning, lunches,
2 part-timers, and such. What I want to do is I want to get into
3 something that's a higher-ticket average and that's open at
4 night. I would also use some students there from the seminary
5 college there near Gaston and Carroll.

6 So I started looking around and looking around. At
7 the same time I had a partner in the coffee shop. He lived in
8 Phoenix. I went to Phoenix. I looked at a lot of salad bars.

9 I knew what I wanted: nighttime, higher-ticket
10 average, something where I could use students, and a salad bar.

11 The second problem is getting the food to the people
12 quickly. I looked and looked and looked and I couldn't find
13 anything. I went to Phoenix and a partner and I saw a company
14 called "Cork & Cleaver" run by two people, Peter Green and Tom
15 Fleck (spg). So that sort of formulated the basic idea.

16 Q. So is the "Steak & Ale" restaurant similar to the "Cork &
17 Cleaver" restaurant?

18 A. Yes, sir.

19 Q. They both have salad bars?

20 A. There aren't any "Cork & Cleavers" around any more.

21 Q. At that time.

22 A. There were salad bars.

23 Q. Do they both have the same kind of menus?

24 A. You mean at that time?

25 Q. Yes.

[101]

- 1 A. Yes, sir.
- 2 Q. And so you started your restaurant based on the concept of
- 3 somebody else?
- 4 A. Well, did I start "Steak & Ale" on the concept of someone
- 5 else? I went to Peter Green and Tom Fleck.
- 6 Q. Could you just answer my question?
- 7 A. Did I start the concept? Yes, sir.
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[102]

[NORMAN BRINKER]

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- 18 Q. Now, are there any statistics in the last category, which
- 19 was the combination of the various things, pallet, feeling,
- 20 light level, sound level, et cetera?
- 21 A. I don't — the only thing I've seen is that the people
- 22 consider this to be important. But it's so subjective it's
- 23 hard to quantify that like it is the other.
- 24 Q. Is it fair to say that it's relatively unimportant?
- 25 A. No. It's quite important. In fact, that's the magic

[130]

1 element. When you add all those up together, that's where it's
2 intangible.

3 That's why you look at restaurants or you go down the
4 road and say, here's one that closed. Remember the last time,
5 it looked good. This one is closed. This one is closed. This
6 one is busy.

7 It's hard to understand until you see it.

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[NORMAN BRINKER]

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8 Q. What features of a Taco Cabana restaurant do you consider
9 to be not functional?

10 A. Not functional at all?

11 Q. Right.

12 A. The plants, the decor items. Umbrellas are functional,
13 semi-functional.

14 If you go beyond that and say strictly nonfunctional
15 at all, there wouldn't be very much in a restaurant that's that
16 Spartan, that would be nonfunctional.

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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4

5
6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
September 28, 1988
9:00 a.m.

10 VOLUME III
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13

14 BEFORE
15

16 THE HONORABLE JOHN V. SINGLETON, JR.
17

18 AND A JURY
19

20 COURT REPORTER:
21

22 SUZANNE W. FORET
23 515 RUSK, SUITE 7705
24 HOUSTON, TEXAS 77002
25

PROCEEDINGS RECORDED BY STENOGRAPHIC
MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[FELIX STEHLING]

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23 Q. Now, this particular joint venture or partner you have down
24 in San Diego, how many stores is he going to open?

25 A. He's going to do four stores. We've opened our first one

[74]

1 and we've found a location for our second one.

2 Q. But it hasn't started construction yet?

3 A. No.

4 Q. Who is the gentleman involved?

5 A. His name is Noel Meisner. He had 11 McDonald's in Montana
6 and sold them. He kind of came south or went to the west coast
7 to retire and saw the concept and had to get back in the
8 business.

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[75]

[FELIX STEHLING]

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9 Q. What restaurant is that?

10 A. Alfonso's in San Antonio.

11 Q. In your opinion, is this restaurant similar to Taco
12 Cabana?

13 A. No.

14 Q. What do you see are the principal differences?

15 A. Well, it doesn't have garage doors. It doesn't have
16 awnings. It has a tile roof. It has a sawtooth or jagged roof
17 line. And, of course, I know that it's — they operate out of
18 a commissary. They have all their food —

19 Q. What is a commissary?

20 A. They have all their food delivered in trucks early in the
21 morning and they reward it during the day.

22 Q. They don't prepare it on the premises?

23 A. There's very little prepared on the premises.

24 Q. So Mr. McDermott — let me go back — referred to the fact
25 that they got ideas from Alfonso's.

[96]

1 I take it your opinion is they are very different
2 animals?

3 A. Very.

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[97]

[FELIX STEHLING]

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14 Q. Based on your background and experience, Mr. Stehling, is
15 that kind of growth pattern shown here for Two Pesos a normal
16 growth pattern from the beginning of a concept to its full
17 development?

18 A. It's just all but impossible.

19 Q. Do you know of any restaurant concepts that started on
20 their own, beginning with their own concept, that developed
21 that quickly?

22 A. No, sir.

23 Q. Do you have an opinion about how much head start they got
24 on you as a result of taking your concept?

25 A. Around four years.

[125]

[FELIX STEHLING]

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21 A. I'd have been a lot better off if Mr. McDermott would have
22 come up with his own concept.

23 Q. And not competed with you?

24 A. If he wouldn't have stolen my concept.

25 Q. Well, isn't it a fact, sir, that you wanted him not to

[136]

1 compete with you?
2 A. If he wouldn't have stolen my concept, if he had had his
3 own concept — why couldn't he do his own concept? Because he
4 didn't know if it would work or not. So he took mine because
5 he knew that it worked. I proved that it worked and he put his
6 name on my concept.
7 Q. And your concept is the idea of a Mexican patio cafe?
8 A. It's an original concept. There's nothing like it
9 anywhere.
10 Q. What is your concept?
11 A. It's a cross between Taco Bell, which is a very plastic
12 concept, and a traditional sit-down restaurant.

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[137]

[FELIX STEHLING]

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25 Q. The plans you're complaining about here are the

[152]

1 Fredricksburg store contains no notice of any kind about
2 confidentiality. Isn't that correct?
3 A. Most people in the city have ethics of some nature.
4 Q. Would you answer my question, please?
5 A. No.
6 Q. And those plans had no copyright notice?
7 A. No, sir.
8 Q. So isn't it fair to say there was no notice of any kind on
9 these drawings about confidential information or about
10 copyright?
11 A. You can assume that, yes.
12 Q. Isn't it a fact?
13 A. Yes.
14 Q. Now, let me show you plaintiff's Exhibit 1.
15 Is that a part of the Fredricksburg plans?
16 A. I think so.
17 Q. Could you identify for me, sir, any trade secrets contained
18 on plaintiff's Exhibit 1?
19 A. How about the configuration, the way it was all put
20 together, is a trade secret.
21 Q. Is that —
22 A. I was going to say it's the only one like it in the
23 country. But I was wrong. There are two.
24 Q. Could you point out to me something on that drawing that's
25 secret?

[153]

1 Mr. Gambrell: I beg your pardon?
2 Mr. Durkee: That's secret.
3 A. (continuing) There's a lot of functional things that are
4 put together in such a way that it's a trade secret as far as
5 I'm concerned.

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[154]

[FELIX STEHLING]

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17 Do you agree with Mr. Brinker that the only
18 nonfunctional items are decor and plants?
19 A. Pretty well, I'd say.
20 Q. Is the answer yes?
21 A. Yes.

[160]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } September 29, 1988
9 9:00 a.m.

10 VOLUME IV
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY
16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
21 HOUSTON, TEXAS 77002
22
23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[FELIX STEHLING]

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12 A. It's just that the operation and my menu and the way I had
13 everything was a trade secret.
14 Q. Sir, we're going around in circles. It's going to take an
15 awful long time.
16 The Court: No, it's not, because we're going to move
17 along.
18 Mr. Durkee: Your honor, I need to get this
19 determined.
20 The Court: I think he has answered your question
21 repeatedly, what he's claiming.
22 By Mr. Durkee:
23 Q. Can you identify one trade secret for me?
24 A. The whole concept.
25 Q. And you cannot identify any other?

1 A. It's all inclusive.

2 Q. And you cannot identify any trade secret that Two Pesos is
3 using?

4 Mr. Gambrell: Your Honor, he has asked this about
5 twenty times.

6 The Court: His position is the whole concept. He has
7 repeated that.

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[34]

[FELIX STEHLING]

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2 Q. We were looking at 470-D, D and E.

3 Do you recognize that restaurant?

4 A. I can't be real sure.

5 Q. Is that a Taco Cabana?

6 A. No, sir.

7 Q. Is that a "Sombrero Rosa"?

8 A. It could be.

9 Q. Does the decor there signify Taco Cabana?

10 A. There's a similarity.

11 Q. Is it your position that decor signifies a Taco Cabana?

12 A. Do you have a picture of the "Sombrero Rosa" in your file?

13 Q. An outside picture.

14 A. Yes. That's the "Sombrero Rosa."

15 Q. Is that restaurant in San Antonio?

16 A. And I consider that trade dress — there's just no chance
17 of any mistaken identity with that thing they have on top of
18 the building.

19 Q. Isn't that restaurant in San Antonio?

20 A. Yes.

21 Q. How many of them are there?

22 A. Two.

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[92]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION

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5
6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } October 3, 1988
10 } 9:30 a.m.

11 VOLUME V

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY

16 COURT REPORTER:

17
18 SUZANNE W. FORET
19 515 RUSK, SUITE 7705
20 HOUSTON, TEXAS 77002

21
22
23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[FELIX STEHLING]

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2 A. (Witness complies.)

3 Q. Let me direct your attention to "PappaTaco's," which is
4 plaintiff's Exhibit 402, I believe;

5 Yes. I have in front of you plaintiff's Exhibit 402.

6 Are you familiar with that "PappaTaco's"?

7 A. Yes, sir. I've been in it.

8 Q. Looking at that — What is that, incidentally? Is that an
9 original building or a redo?

10 A. It's an old "Steak & Ale."

11 Q. Let's look at the top pictures of the exterior
12 architecture.

13 Does that appear similar to Taco Cabana?

14 A. Nobody could confuse that with Taco Cabana.

15 Q. Now, looking at the interior, the shot of the inside of
16 "PappaTaco's," is that more similar to Taco Cabana than Two
17 Pesos?

18 A. No, sir, it's not. It's different. It even has carpet on
19 the floor.

20 Q. It has interior posts, does it not?

21 A. Yes.

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. } Houston, Texas
9 Two Pesos, Inc. } October 4, 1988
9 9:30 a.m.

10 VOLUME VI
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
15 AND A JURY
16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
21 HOUSTON, TEXAS 77002
22

23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[RALPH E. KENISKY]

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23 Q. You mentioned during your direct testimony the two or three
24 instances a month of confusion which took place over about six
25 or seven months, as I recall?

[117]

- 1 A. That's correct.
2 Q. Were these voluntary statements made to you?
3 A. Oh, yes. They were all voluntary.
4 Q. So you didn't sit there at the counter and ask people if
5 they were confused as they walked through?
6 A. No, no. I didn't have time to do that.
7 Q. So you don't know now many people had that same thought in
8 mind but just didn't make the comment to you, do you?
9 A. No, outside of those that approached me. It could have
10 been more.
11 Q. You don't know how many may have been confused?
12 A. That's right.
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[LYNN MOODY]

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5 A. Well, the number one thing that I'm asked most often when
6 people find out that I'm with Taco Cabana is they want to know
7 if Taco Cabana and Two Pesos is owned by the same company or
8 are we subsidiaries of the same company.
9 Q. Are these questions that you elicit the question from by
10 asking them, or are these voluntary or unsolicited comments?
11 A. Unsolicited.
12 Q. In addition to that, what other kinds of information do you
13 have on instances of actual confusion?
14 A. Comment cards that we get back from customers. Or we get
15 phone calls from customers asking how come one store does —
16 one store is selling margaritas for 99 cents while the other
17 one is selling for \$2.00 or why one store is pink and one store
18 is blue.
19 Q. Do you know during the period of time, did Virginia Crowe
20 — who I take it is your aunt —
21 A. Yes, sir.
22 Q. — Did she keep comment cards at the Taco Cabana store at
23 Chimney Rock and Richmond?
24 A. Yes, sir.
25 Q. Did you review those comment cards?

1 A. Yes, sir.

2 Q. Do you review comment cards that come in from various
3 stores?

4 A. Yes, sir.

5 Q. Have you reviewed those cards that come in from
6 franchisees?

7 A. Yes, sir.

8 Q. For example, in El Paso. Have you seen some that come from
9 there?

10 A. Yes, sir.

11 Q. Do you have a habit of talking with the various franchise
12 owners and company store managers wherever the stores are?

13 A. Oh, yes, sir.

14 Q. Based on that, what kind of actual confusion have you seen
15 over and above the kind that you just indicated?

16 A. A lot.

17 Q. And is this — in connection with the comment cards, are
18 those comment cards to solicit specific instances of confusion,
19 or how do you ask a customer to give a comment card?

20 Is the comment card directing them to say, "Is there
21 confusion," or do you just ask for their comments on the
22 card?

23 A. We just have a basic comment card we put on the tray and
24 they fill it out and put it in the drop box.

25 They come out saying — most of them come out saying,

1 "Is Two Pesos and T.C., Taco Cabana, owned by the same
2 company," or, "How come this building is pink," or — let's
3 see what other comment's they make towards actual confusion.

4 A. Do they sometimes give you the appearance that they think
5 you, have a store at a particular location which is not your
6 store?

7 A. Oh, yes, sir. I got a letter from some people I don't even
8 know thanking me for — or my wife and I did — thanking us for
9 letting them come in our kitchen and work with our food and our
10 cooks and our recipes at our North Richland Hills location.

11 Q. Which Taco Cabana is North Richland Hills?

12 A. We don't have one there. That's Two Pesos.

13 Q. And they wrote you thanking you for Two Pesos' hospitality?

14 A. Yes, sir.

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Taco Cabana International,
Inc., and Taco Cabana, Inc.

vs.

Two Pesos, Inc.

Civil Action
No. H-87-0026

Houston, Texas
October 5, 1988
9:30 a.m.

VOLUME VII

TRANSCRIPT OF TRIAL PROCEEDINGS
BEFORE

THE HONORABLE JOHN V. SINGLETON, JR.
AND A JURY

COURT REPORTER:

SUZANNE W. FORET
515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

PROCEEDINGS RECORDED BY STENOGRAPHIC
MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[VIRGINIA STEHLING CROWE]

Q. Ms. Crowe, would you please state your full name?

A. Virginia Stehling Crowe.

Q. Are you the sister of Mike and Felix Stehling?

A. Yes.

Q. What is your current occupation?

A. I'm the manager of the Houston TaCasita store.

Q. Could you speak up a little bit?

A. I'm the manager of the Houston TaCasita store.

Q. And that TaCasita is located at the intersection of
Richmond and Chimney Rock here in Houston?

A. Yes.

Q. How long have you held that position?

A. Almost three years.

Q. When did you start to work for — I assume since you've
held that position for three years, you worked before for Taco
Cabana?

A. Yes, I worked for Taco Cabana. Okay. Taco Cabana, I
started in November of '85.

Q. And that was before the split?

A. That's right.

Q. At that time did you work for TaCasita, or Taco Cabana as
it was then known, at Richmond and Chimney Rock?

[93]

1 A. No. The Richmond and Chimney Rock store — I worked in
2 San Antonio. I lived here in Richmond-Rosenburg, but I went to
3 San Antonio to train, to help open the Houston store, which was
4 in February.

5 Q. Okay. So you went to work for a couple of months in San
6 Antonio and then came to Houston and went to work at the new
7 store on Richmond?

8 A. Well, I actually worked in San Antonio for two months and
9 then moved to Austin because we were opening a store there.
10 And then I came to Houston.

11 Q. Have you been the manager of the Houston store since it
12 opened?

13 A. Yes.

14 Q. Is quality of principal concern to Mike Stehling?

15 A. Quality in what respect?

16 Q. Food and services.

17 A. Absolutely.

18 Q. Has that been his position even when you started working
19 for Taco Cabana three years ago?

20 A. Sure.

21 Q. And even after the corporate split in December 1986, is it
22 still a principal concern to TaCasita that quality be
23 maintained?

24 A. I would say that the quality of food has always been the
25 most important thing.

1 Q. At the time you worked for Taco Cabana, was quality of food
2 and service of principal concern to Felix Stehling as well?

3 A. Sure.

4 Q. Is TaCasita concerned about Taco Cabana maintaining a
5 quality product and service, quality product and service in its
6 food and services?

7 A. Well, I would say we have to be. You know, we have the
8 identical trade dress. We look the same. Many people confuse
9 us. Many people come into our store thinking we're Taco
10 Cabana. And I think it happens vice-versa.

11 We don't want someone going there and saying, "the
12 food was lousy there. I'm not going to go to any more," and
13 assume that we're the same people.

14 So it's important that they keep theirs up as much as
15 we keep ours up.

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[VIRGINIA CROWE]

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Q. It was clear to you that this confusion was between Taco Cabana and Two Pesos?

A. Yes.

Q. Let me refer you now to page 6 of this same package, Exhibit 366-b.

This particular person — apparently the lady drove through the drive-through window and asked if you were affiliated with Two Pesos. She said that we had the same kind of food and when they drive past or look inside, they looked the same. She said it was identical.

Again, is this the kind of comments that you received?

A. Sure. People would walk in the front door. If they hadn't noticed that we were similar or the same before they came in, they would say, you know, "Oh, my gosh. This is exactly like Two Pesos," or, "Are we in the same place," or, "This store is owned by the same company."

There was a lot of confusion on that.

Q. These were all unsolicited?

[100]

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A. Absolutely. Quite honestly, we didn't like to hear the name of Two Pesos in our place.

Q. And this happened two or three times a day for several months?

I would say it happened more than that. I can say that I heard it two or three times a day. We're a 24-hour store and I'm just there maybe a third of the day.

Q. So you heard it approximately two or three times a day?

A. Yes.

Q. For how many months approximately?

A. Oh, at this point it would be hard to remember. I'd say maybe that went on for two or three, maybe even four months.

Q. So you heard about it a 200 or 300 times, something like that?

A. Okay. If that's how it comes out.

Q. Is that approximately how many times you estimate?

A. That would be fair.

Q. Now, these particular reports that are 366-B are documented reports. Is that correct?

A. That's right.

Q. I assume you heard more undocumented instances. You didn't document every single instance, did you?

A. No.

Q. Now, this particular document, 366-B, has dates — would you identify for the jury the range of dates in this document?

[101]

- 1 A. Which page? I'm sorry.
2 Q. You can start with one.
3 A. Oh, okay. That's dated March 23rd. Do you want me to go
4 to the last one?
5 Q. Is that a five or a three?
6 A. I think that's a three.
7 Q. And the next one?
8 A. The next one is May something.
9 Maybe that is a five on the first one. I'm not real
10 sure.
11 Okay. The next one is May. The next one is May. The
12 next one is probably in May. I can't tell from this. The next
13 one is May. May. May. May.
14 Now here's a February. And the next one is June.
15 June. June.
16 Q. All in 1986?
17 A. Some of them don't have the year, I don't think.
18 Wait. Let me see.
19 Some of them don't have the year, but they probably
20 are all in 1986.
21 Q. So these are documented instances, most of them being in
22 May of 1986?
23 A. Yes.
24 Q. You don't have any other documentation outside of this type
25 here, do you?

- 1 A. No.
2 Q. But this confusion level continued past this May 1986 time
3 period?
4 A. I'd say it still exists right now.
5 Q. How often does it happen now?
6 A. I would say we're down to two or three times a week,
7 something like that.
8 We're probably now in the comparison stage and have
9 been for a long time, people comparing us to Two Pesos and are
10 not as confused.
11 But we still have people that come in and say, "You're
12 owned by the same company. You have a different name, but you
13 must be the same company."
14 They still say that.
15 Q. And that still happens two or three times a week?
16 A. Maybe a couple of times a week.
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[SCOTT ZIEGLER]

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13 Q. At the time you had that first meeting, what is that Mr.

14 Blacketer told you and Mr. McDaniell?

15 A. That he would like to start a restaurant concept with a

16 drive-through and Mexican food service.

17 Q. Did he have one in mind during your discussion?

18 Did you get the impression he had a particular

19 restaurant concept in mind?

20 A. He had come to our office with some photographs and a plan

21 of a restaurant that he said he found very interesting.

22 Q. And which restaurant was that, Mr. Ziegler?

23 A. Taco Cabana.

24 Q. And he had a number of pictures of it?

25 A. As I recall, there was one picture and one floor plan.

[136]

1 Q. And was that a set of drawings that he had with him? Do
2 you recall?

3 A. I do not recall anything more than a floor plan and a
4 photograph showing an oblique angle of the entrance.
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[137]

[SCOTT ZIEGLER]

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17 Q. At this time you had a meeting with who, Mr. Blacketer and
18 who else?

19 A. For this presentation?

20 Q. Yes, that presentation.

21 A. This presentation was Jim McDaniell, myself, Jim Blacketer
22 and Mr. McDermott.

23 Q. And it was around April 24th or so?

24 A. Yes.

25 Q. Now, at that time you had — Mr. Blacketer had already

[144]

1 been in a discussion with you and Mr. McDaniell and had shown
2 you a set of Taco Cabana plans and photographs. Is that
3 correct?

4 A. Yes, he had.

5 Q. As a matter of fact, I believe you indicated that the Taco
6 Cabana drawings were in your office for the first meeting you
7 had with Mr. Blacketer. Is that correct?

8 A. It was either the first or the second, but they were in my
9 office.

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[145]

[SCOTT ZIEGLER]

1 In the first paragraph after the statement of the
2 hiring of the firm for design services, it says, "As requested,
3 this first phase of services is to be of limited scope based
4 primarily on an existing prototype originated in San Antonio."

5 Do you see that?

6 A. I did read that, yes.

7 Q. And what prototype in San Antonio did that make reference
8 to?

9 A. I assume it was the plans that he brought to our office.
10 We had not been to San Antonio to see that, so I don't know.
11 But I'm assuming that's what he meant.

12 Q. You say you had not been?

13 A. I had not been to San Antonio.

14 Q. Do you know whether Mr. McDaniell had been to San Antonio
15 and looked at a number of Taco Cabana restaurants?

16 A. Within a certain time frame, I could probably describe
17 that. I know that somewhere after the design of this first
18 phase here, I think he went to San Antonio with Mr. Blacketer
19 on a Saturday morning.

20 Q. You don't remember whether it was before April 24th or
21 after April 24th?

22 A. I believe it was after April 24th.

23 Q. But is there any doubt in your mind what was referenced
24 here in this letter was to the Taco Cabana Restaurants in San
25 Antonio?

[148]

1 A. The reason I'm hesitating is that there were a couple of
2 restaurants that were mentioned. Having never been to San
3 Antonio — and I know that Jim McDaniell had not been there at
4 that time — what we were relying on was Mr. Blacketer's
5 knowledge of a concept in San Antonio. In retrospect, it
6 probably was that, but I can't be certain.

7 Q. Did Mr. Blacketer when he first met with you and Mr.
8 McDaniell show you photographs of plans or plans of any
9 restaurants other than Taco Cabana?

10 A. No. It was photographs of Taco Cabana and a plan of Taco
11 Cabana.

12 Q. That was the only one that was shown to you two during
13 those meetings?

14 A. Right.

15 Q. So it's logical to assume, is it not, that that reference
16 in PX-138 is to Taco Cabana?

17 A. Yeah.

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[149]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

Taco Cabana International,
Inc., and Taco Cabana, Inc.

vs.

Two Pesos, Inc.

Civil Action
No. H-87-0026

Houston, Texas
October 6, 1988
9:30 a.m.

VOLUME VIII

TRANSCRIPT OF TRIAL PROCEEDINGS
BEFORE
THE HONORABLE JOHN V. SINGLETON, JR.
AND A JURY

COURT REPORTER:

SUZANNE W. FORET
515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002

PROCEEDINGS RECORDED BY STENOGRAPHIC
MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[GABRIEL M. GELB]

Q. Now, let's come back then and look at question 5, "What makes you think that these restaurants are owned or operated by the same company?"

Now, could you explain 442-D to the jury, please?

A. Right. Well, the folks gave many different reasons. I could read some of them to you.

But we have a data processing department whose job is to take open-ended questions and create categories for them, those that are most similar to that, so that you wouldn't have all of these answers just go down the chart. They're very skilled in what we call coding these.

So those are summaries of the kinds of questions which were grouped together.

Q. These are sort of compartments in which similar kinds of responses are classified and coded, would you say?

A. Right.

Q. Now, would you please explain to the jury what these codings or categories mean or how they shape up?

A. Okay. Well, the next thing to mention is that we have multiple answers there. In other words, it will add up to more than 100 percent.

Some people say, "Well, the building looks the same.

That's why I think that they're owned or operated by the same company," or they might say, "Well, the menu is the same also."

So they could be represented in more than one of those

1 bars.

2 Q. Or categories?

3 A. Or categories. And it starts from the top. 32 percent
4 gave as reasons why they thought that these restaurants are
5 owned or operated by the same company is that they have the
6 same food, the same things in the store. That's just kind of a
7 generalization. That was 32 percent.

8 29 percent, which is very close, said there was a
9 similarity in the buildings and they have the same look. By
10 that, they meant — some meant they have the same look inside
11 and some meant that they have the same look outside.

12 22 percent, that third bar, said that they have the
13 same style operation, the way they operate. The drive-in is
14 the same or the way that you order is the same.

15 Those are the three major reasons given why they
16 thought that the restaurants were owned or operated by the same
17 company.

18 And then it drops down to the fourth bar, which is 9
19 percent, that thought that the names were similar.

20 8 percent felt that the decoration or the colors were
21 the same.

22 5 percent said the menu was similar.

23 3 percent said the atmosphere is alike.

24 And then 2 percent said, "I just heard that they're
25 the same company."

1 2 percent said, "I read it somewhere."

2 1 percent said, "TaCasita became Taco Cabana."

3 1 percent said, "They came out about the same time.
4 That's why I think they're the same."

5 5 percent, the last bar, I just gave assorted reasons.

6 Q. Just miscellaneous reasons?

7 A. That's right.

8 Q. From this question 5 and the questions 2, 3 and 4 before
9 it, what did you conclude with respect to the patrons that were
10 in Taco Cabana that you sampled?

11 A. Well, from my reading of Trade Dress — and I'm not an
12 expert in it — but I know what "concept" means in the context
13 of a restaurant.

14 If you'll look at that, you'll see that going all the
15 way down to 3 percent where the last bar chart is, the
16 atmosphere is alike.

17 Q. Down below the 3 percent one here?

18 A. Yeah. That's 3 percent. All of those answers above the 3
19 percent seem to be Trade Dress comparisons.

20 Q. Other than the name similarity?

21 A. Right. Well, that could be a Trade Dress similarity, too,
22 that's perceived by the public.

23 Q. They perceive the name to be the same?

24 A. Yes. And the same food, similarity in building, same style
25 operation, name similarity, decoration is the same, menu

1 similarity and atmosphere is alike, all seem to be Trade Dress
2 issues.

3 Q. From that, what do you conclude about the likelihood of
4 confusion in connection with the fact of Taco Cabana and Two
5 Pesos restaurants?

6 A. Well, I would say of the total sample, about 31 percent
7 appear to be confused by the similarity of the operation of the
8 two — or if you want to make it three — restaurants.

9 Q. How, how did you get this — I take it you're talking
10 about 31 percent of this 39 percent of the question 3?

11 A. That's right.

12 Q. How did you get that 31 percent? Could you explain to the
13 jury, please?

14 A. 39 percent of the people thought that some of these
15 restaurants were owned or operated by the same company.

16 What we did was when we asked them who that was, 19
17 percent named Taco Cabana and TaCasita. That does not indicate
18 confusion because there was a relationship between the two.

19 So if you add the 61 percent who named Taco Cabana and
20 Two Pesos and the 18 percent who named the three, multiply that
21 by 39 percent, you end up with 31 percent of the total sample
22 who seemed to be confused about the operation of the two, or
23 the three, restaurants.

24 Q. So what you're saying is taking the 61 and 18 percent from
25 442-C, and multiplying it times 39 percent of 442-B, you get

1 the 31 percent of the total sample population?

2 A. That's correct.

3 Q. What do you conclude as a result of seeing this 31 percent
4 that appear to be confused or are likely to be confused by the
5 similarities?

6 A. Well, I would say that 31 percent of the patrons of Taco
7 Cabana are confused in that there is a likelihood of confusion
8 along the same lines of the total sample of those who have
9 eaten at Taco Cabana.

10 Q. Does this result that you've explained to the jury apply to
11 all Taco Cabana customers?

12 A. No, not all of them. I would say it applies — the
13 specific numbers apply to Houston because we interviewed at all
14 of the three Houston stores.

15 Whether or not they would apply in El Paso would depend
16 on whether or not — how many stores of each chain
17 there were.

18 But certainly this does indicate that some element of
19 confusion would probably be on the scene in those markets.

20 Q. But would you — I take it what you're saying is with
21 respect to Taco Cabana in Houston, where both Two Pesos and
22 Taco Cabana are, that you believe this is extrapable into the
23 general population as the likelihood of confusion among people
24 who have been to both restaurants?

25 A. Yes.

1 Q. What about the question of what this would mean or show if
2 you were talking about running a survey like this in a Two
3 Pesos Restaurant?

4 Would you expect to have something more or less the
5 same or would it be different or what?

6 A. Well, our figures show that 61 percent of the total
7 population who are in a Taco Cabana store have been at Two
8 Pesos or Two Pesos and TaCasita. So there is a tremendous
9 overlap.

10 I would say that the statistics that we have for Two
11 Pesos' patrons at Taco Cabana would probably apply to those Two
12 Pesos' patrons who had also been at a Taco Cabana.

13 So I don't think there would be any difference between
14 those who had been at both stores whether they were interviewed
15 at a Taco Cabana or a Two Pesos.

16 Q. You're not suggesting a direct parallel, but just an
17 appropriate approximation would probably expect the same
18 general level of confusion?

19 A. That's right.

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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
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5
6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
October 7, 1988
9:30 a.m.

10 VOLUME IX
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS
13

14 BEFORE
15

16 THE HONORABLE JOHN V. SINGLETON, JR.
17

18 AND A JURY
19

20 COURT REPORTER:
21

22 SUZANNE W. FORET
23 515 RUSK, SUITE 7705
24 HOUSTON, TEXAS 77002
25

PROCEEDINGS RECORDED BY STENOGRAPHIC
MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[JAMES MCDANIELL]

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3 Q. Now, did Mr. Blacketer have with him any photographs or
4 drawings of Taco Cabana Restaurants at that time?
5 A. Mr. Blacketer had some — I can't remember if they were
6 8 by 10's or smaller photographs of Taco Cabana.
7 Q. Were there a dozen, half a dozen?
8 A. There was two or three.
9 To the best of my recollection, I do not remember any
10 Taco Cabana drawings at all at that time.
11 Q. Did he have photographs of any other restaurants at the
12 time you first met him in Mr. Ziegler's office?
13 A. Not to my recollection.
14 Q. So the only photographs he showed you were those of Taco
15 Cabana?
16 A. Yes, sir.
17 Q. Now, you said he didn't show you a set of plans at that
18 meeting that you recall?
19 A. I don't remember if he did. I'm pretty much sure he didn't
20 have anything like that at that time.
21 Q. However, you've seen a set of Taco Cabana plans when you
22 were at Ziegler-Cooper, have you not?
23 A. Yes, sir.
24 Q. And when approximately did you see them if you didn't see
25 them at the first meeting?

[185]

- 1 Or let's get the sequence right.
2 You had the first meeting around early April, around
3 April 8th or April 10th?
4 Would that time frame be reasonable?
5 A. Early April is the best I can do.
6 Q. But you had another meeting with Mr. Blacketer subsequent
7 to that first meeting, did you not?
8 A. Could you repeat that please?
9 Q. Yes. Subsequent to the initial meeting where you were
10 introduced to Mr. Blacketer, you had another meeting following
11 that with him, did you not?
12 A. I had another meeting following that meeting with Mr.
13 Blacketer.
14 Q. That's what I meant.
15 A. Yes.
16 Q. All right. Now, approximately when after the initial
17 meeting did that second meeting take place?
18 A. I'm really not sure, but I would imagine it was probably
19 within a period of seven to ten days.
20 Q. So are you aware of the fact there was an engagement letter
21 signed by Ziegler-Cooper?
22 In fact, I believe you signed it on behalf of
23 Ziegler-Cooper on April 17th, 1985?
24 A. I don't remember the date. I remember the letter.
25 Q. Let me see if I can — well, for the moment — I'll get

[186]

1 to it in a minute.

2 I'll represent to you it was April 17th.

3 Now, working back from that assignment letter, you do
4 recall an assignment or an agreement letter in which you agreed
5 to do a limited design phase for "Nacho's" and Jim Blacketer,
6 do you not?

7 A. That's correct.

8 Q. Now, looking at that letter of the April 17th time frame
9 and going back from it, how far before that or how long before
10 that letter was signed by you and sent to Jim Blacketer did
11 you have your first meeting with him in Scott Ziegler's office?

12 A. I think that it would probably have been a couple of
13 days.

14 At Ziegler-Cooper we were fairly good about getting
15 our documentation done and getting the contract signed so that
16 we would have an agreement in order to base our work on.

17 Q. So you had at least two meetings, though, before you signed
18 the agreement?

19 A. No, I'm not saying that. I'm saying that that agreement —
20 I'm not sure if it was mailed or if that agreement was
21 presented at the next meeting that we had with Mr. Blacketer.

22 But it would have been one of those two situations.

23 Q. At that first meeting, Mr. McDaniell, that lasted about an
24 hour and a half as you indicated, what did Mr. Blacketer tell
25 you and Mr. Ziegler?

[187]

1 Were both of you in the meeting for the entire time?

2 A. Mr. Ziegler, myself and Mr. Blacketer, yes, sir.

3 Q. Now, what did Mr. Blacketer tell you at that time in that
4 initial meeting?

5 A. Well, Mr. Blacketer was very excited. He had an idea of
6 developing a concept like a Taco Cabana and he was talking
7 about how successful that concept was and he was showing us
8 different aspects of that particular concept pointing to them
9 in the photographs and things that he had.

10 I remember that he talked about they were doing
11 a tremendous volume and that they were a very successful
12 concept.

13 Q. Now, before you signed that agreement, there is no doubt in
14 your mind that Mr. Blacketer thought it was a very creative
15 concept?

16 A. Well, I don't know if "creative" is really the correct
17 terminology.

18 I think probably "successful" would be a more
19 applicable term.

20 Q. He didn't tell you that it was one of the neatest concepts
21 he had seen in the restaurant industry?

22 A. You have to know Mr. Blacketer. Mr. Blacketer is a very
23 energetic, excitable person.

24 He's the kind of person that walks into a room and
25 everybody starts smiling.

[188]

1 So, yes, he was very excited.
2 Q. You didn't know that characteristic of Mr. Blacketer when
3 you met him for the first time, did you?
4 A. No. But I had met similar people like that in my lifetime.
5 Those types of people are very similar.
6 Q. They're very hyper on what they like and very down on what
7 they don't like?
8 A. Yes, sir.
9 Q. And there's no question in your mind he was extremely
10 excited about this Taco Cabana concept he had seen?
11 A. He was.
12 Q. Had you ever seen a Taco Cabana at that point?
13 A. I had not.
14 Q. Now, before you signed that agreement, that April 17th
15 agreement, isn't it a fact that he showed you and Mr. Ziegler a
16 set of Taco Cabana plans?
17 A. I'm not really sure when he showed us a set of Taco Cabana
18 plans.
19 Like I said, he could have had them at that very
20 initial meeting. But for some reason I don't think they were
21 there because I don't remember discussing anything in terms of
22 the building layout.
23 Q. But you did look at the photographs?
24 A. We looked at photographs.
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[189]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
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5
6 Taco Cabana International, } Civil Action
7 Inc., and Taco Cabana, Inc. } No. H-87-0026
8 vs. }
9 Two Pesos, Inc. } Houston, Texas
October 13, 1988
9:30 a.m.
10 VOLUME XI
11
12
13 TRANSCRIPT OF TRIAL PROCEEDINGS
14 BEFORE
15 THE HONORABLE JOHN V. SINGLETON, JR.
16 AND A JURY
17
18 COURT REPORTER:
19 SUZANNE W. FORET
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HOUSTON, TEXAS 77002
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23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

[PHIL KENSINGER]

- 1 Q. What did he tell you? What did you learn from him?
2 A. Well, Jim came in to see me and he was the most
3 enthusiastic I had ever seen him. He was excited. And he told
4 me that he had just seen a concept in San Antonio, Texas that
5 was the most exciting thing he had ever seen in the food
6 business.
7 Q. Did you learn from him what concept that was he was
8 referring to?
9 A. Yes, I did. Jim told me — he said, "As you know, I've
10 been very successful in this business."
11 He had, I think, been involved in two or three prior
12 food ventures, all of which had turned out well.
13 He at that time was operating very successfully or had
14 operated — and I think he had sold his Chi-Chi's operation on
15 Richmond Avenue, which had been very successful.
16 He told me that he had seen the most exciting business
17 he had ever seen in his life. He said it was an unusual
18 concept, it was unique, and that he was going to copy it nut
19 for nut and bolt for bolt.
20 Q. Now, did he also tell you after he expressed his excitement
21 to you, did he suggest that you go over and look at Taco
22 Cabana?
23 A. Yes, he did.
24 Q. Did you do that?
25 A. Yes.

[65]

[PHIL KENSINGER]

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9 But I've learned as a landlord that the operation of a
10 food establishment, the successful operation of one, is a
11 combination of very small details, very carefully executed.
12 And I've found that the successful operators are very
13 immaculate in attending to these details.
14 By Mr. Gambrell:
15 Q. And do you believe it also includes the concept of how its
16 executed, its appearance and feel as well?
17 A. Yes. I think it's a combination. It's a total package of
18 good food and good service and a combination of things that go
19 together and make it.
20 Q. Had you, subsequent to the opening of Two Pesos, been in
21 any Two Pesos Restaurants?
22 A. Yes.
23 Q. What is your impression having been in Two Pesos and in
24 Taco Cabana in terms of the concept that each executes?
25 A. I think that Jim did exactly what he said. He did it nut

[69]

1 for nut and bolt for bolt.
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[70]

[THOMAS-JOSEPH NAVIN]

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15 Q. During any of these meetings were you shown photographs of
16 a Taco Cabana in San Antonio?
17 A. Yes, I was.
18 Q. How many photographs did you see?
19 A. Four.
20 Q. Were they exterior shots?
21 A. They were all exterior shots.
22 Q. Did you ever see any Taco Cabana plans?
23 A. No, I did not.
24 Q. And did you have any conversations with either of these
25 gentlemen about these photographs?

[82]

- 1 A. Yes, I did.
- 2 Q. What comments did they make to you about these
- 3 photographs?
- 4 Mr. Redano: Objection. Hearsay.
- 5 The court: I'll overrule that objection.
- 6 This is Blacketer and McDaniell, isn't it?
- 7 Mr. Delflache: yes.
- 8 The Court: Overrule the objection.
- 9 A. (Continuing) Mr. McDaniell said basically that they were
- 10 copying the Taco Cabana location out in San Antonio to —
- 11 well, they brought plans out and then photographs and said they
- 12 were copying the Taco Cabana out of San Antonio. They wanted a
- 13 like location or so forth or a like building to Taco Cabana.
- 14 And Mr. Blacketer agreed with that.
- 15 By Mr. Delflache:
- 16 Q. And you said they took plans out. They showed you their
- 17 own plans?
- 18 A. They showed me their own plans.
- 19 Q. And they pointed to Taco Cabana photographs?
- 20 A. Yes, they did.
- 21 Q. Did they indicate to you that they wanted that concept?
- 22 A. Yes, sir.
- 23 Q. Did they ask you to try to replicate anything on that
- 24 concept?
- 25 A. My quoting package was based on the photographs for the

- 1 neon light, the drive-through menu. There's a menu board [sic]
- 2 on the side.
- 3 Let's see. I'll tell you the photographs right now.
- 4 There's a photograph of the exterior signage, the main pile-on
- 5 sign.
- 6 There's a photograph of the drive-through window
- 7 signage, the prices and so forth.
- 8 There is a photograph of the drive-through, I guess,
- 9 to give me different heights of rows of neon I would have to
- 10 put on the exterior of the building.
- 11 And there's one head shot of the facade of the
- 12 building, I guess, where they all set out their garage doors
- 13 and so forth.
- 14 Q. And that was intended to show you where the neon lights
- 15 would be on Two Pesos?
- 16 A. No. This was Taco Cabana.
- 17 Q. I understand. But the purpose of the photographs was to
- 18 show you where they wanted the neon lights placed?
- 19 A. Yes.
- 20 Q. Did either Mr. McDaniell or Mr. Blacketer indicate anything
- 21 else to you about the concept and what their intentions were?
- 22 A. Well, they told me they wanted to go nationally with this
- 23 concept.
- 24 It was also very firm in their minds that I had to
- 25 finish all signage within four weeks.

1 And there would be five more locations. They
2 originally wanted a bid package for five locations in Houston
3 and the surrounding areas.

4 But, you know, we had to be able to finish totally
5 within four weeks. They had to do them as fast as they
6 possibly could.

7 Q. Did they indicate to you what their intentions were for the
8 Houston area with respect to these five restaurants?

9 A. Their intentions were putting in five restaurants as fast
10 as they could because Taco Cabana was not there at that point.
11 They had to get a foothold in Houston before Taco Cabana came.

12 Q. They told you that?

13 A. Yes, they did.

14 Q. In those words?

15 A. Exact words.
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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
October 14, 1988
9:30 a.m.

10 VOLUME XII
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS

13 BEFORE

14 THE HONORABLE JOHN V. SINGLETON, JR.
15

16 AND A JURY
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
22
23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[PHILIP J. ROMANO]

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16 Q. Now, coming back to the trade dress thing, many people have
17 said that the name of a restaurant is enough to distinguish
18 it.

19 Do you believe that's true in the case of Fuddruckers
20 or in the case of Taco Cabana?

21 A. Well, the name has some validity. I can tell Chevrolet or
22 Buick without looking at the name Chevrolet or Buick on it.
23 It's important, but it's not how you identify things.

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[43]

[PHILIP J. ROMANO]

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24 Q. Let me turn, if I can now, to Two Pesos.

25 I'd like to talk about Two Pesos and its relation to

[47]

1 Taco Cabana.

2 Do you have an opinion on Two Pesos and whether or not
3 it constitutes a misappropriation of Taco Cabana's concept?

4 A. Yes, I do.

5 Q. What is that opinion, Mr. Romano?

6 A. I think it's a direct copy.

7 Q. And why principally do you see it as a copy? You've been
8 in Two Pesos as well, have you not?

9 A. Yes, I have.

10 Q. Now, I'd like to direct your attention, if I could, to
11 these two models, plaintiff's Exhibit 3 and 342. Perhaps you
12 can come down from the stand, if you like.

13 Perhaps you could briefly indicate to the jury what it
14 is and why it is you believe that Two Pesos constitutes a
15 misappropriation of their trade dress?

16 A. Well, to start off, they both look the same. They're
17 shaped the same. They look the same. When you're inside, they
18 feel the same. They have the same product.

19 Q. Tell me one thing, Mr. Romano: When you make a judgment or
20 when a consumer makes a judgment on a restaurant, do you ever
21 have the opportunity to look at them side by side like this, or
22 how do people normally see restaurants?

23 A. Well, I think they see it, again, by shape. I mean, you
24 could take the sign off of McDonald's and know it's a
25 McDonald's just by the shape of the place.

[48]

[GLENN WILLIAMS]

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20 Q. Now, let's turn, if we can, to the kitchen area,
21 plaintiff's Exhibit 445, if we could put that up. Perhaps we
22 could put it down below.

23 But let me direct your attention first to the
24 photographs, plaintiff's Exhibit 43 and plaintiff's Exhibit
25 334.

[146]

1 Do you recognize plaintiff's Exhibit 43?

2 A. Yes.

3 Q. Is that a Taco Cabana kitchen?

4 A. This one here?

5 Q. Yes.

6 A. Yes.

7 Q. And the one above it, the Two Pesos' kitchen, could you
8 comment on those similarities and differences, if you will?

9 I'll also put before you plaintiff's Exhibit 445,
10 which is a Taco Cabana kitchen and food preparation area.

11 Perhaps you might explain 445, and then you can
12 comment on the photographs.

13 A. Okay. The coloring is not really unique, but apparently
14 the purple colors here are those places in which orders are
15 received. Here is the entry area where you can receive
16 orders. And, obviously, they're in this position on both
17 diagrams.

18 The "to go" window, which is out here, again, you see
19 the purple. This is a singular line through here.

20 The large pink area here are the toilet facilities.

21 The dark brown here being the dry storage areas. The offices.
22 I believe these are ice machines, the large areas here. Maybe
23 these are washers and dryers. I don't remember.

24 The blue areas being cold areas, walk-in coolers here,
25 and the ice machine here. There's the ice machine there.

[147]

1 The green areas being prep areas, here, here, here and
2 here. Up here for the out prep, out prep here. Inside prep,
3 inside prep.

4 Q. By "out prep," you mean the out prep to the drive-through
5 area?

6 A. Yes. And the red lines being the principal cook line.

7 Q. Now, this particular cooking line here on the lower side of
8 445 and 446 is seen by the customer as he either orders or
9 picks up his food. Is that correct?

10 A. That's correct.

11 Q. But the one on the other side is on a partial wall. Is
12 that correct?

13 A. It's behind a full wall, yes.

14 Q. Can you see any part of that when you're ordering or when
15 you're standing on the side or what?

16 A. You may be able to see the edge of this equipment here.

17 Q. But generally the one you see most commonly is the one here
18 where they're preparing tortillas and things like that?

19 A. Yes.

20 Q. Where is the tortilla prep line?

21 A. It's the yellow part right here.

22 Q. Now, the purposes that these various pieces serve, Mr.
23 Williams, are those functions or purposes found in most
24 restaurants or are they unique to this restaurant or what?

25 A. Well, all of these things function but they're not

[148]

1 necessarily a function of. They all come together and go
2 together to produce this menu. Obviously a sense of design
3 hasn't been changed that much since the onset of the business.
4 It's a good design, but it's certainly no where near the best
5 design or the only design.

6 Q. In terms of functions within a restaurant, every
7 restaurant, I guess, has certain basic functions, doesn't it?

8 A: Sure.

9 Q. It serves food?

10 A. Yeah. All of them have — generally speaking, from the
11 back door you have areas in which you can store the bulk food,
12 whether it be cold or no refrigeration. Then the dry storage.
13 They all have bulk ice machines. They all have preparation
14 areas.

15 Q. Do they normally have washer and dryers in them, Mr.
16 Williams?

17 A. Very few.

18 Q. In this particular one, in putting it together though, you
19 indicate there are other ways to do it.

20 I'd like to put in front of you a couple of sketches
21 marked plaintiff's Exhibits 499 and 500.

22 These two sketches you drew, did you not, Mr.
23 Williams?

24 A. I did.

25 Q. And in the interest of time, I asked you to draw them

1 before coming to court?

2 A. Right.

3 Q. I'd like for you to explain to the jury what they are and
4 how they relate to the layout of the various equipment in the
5 kitchen and the food preparation area particularly.

6 A. These orientations are the same. This is the rear of the
7 restaurant in each case.

8 Q. Now, I asked you, did I not, Mr. Williams, to look at that
9 layout of the kitchen and give a couple of suggestions as to
10 other ways you might organize the equipment to carry out the
11 various functions that you want and yet not have them related
12 or associated in the same way.

13 Now, with that in mind, have you colored them with
14 similar colors in order to carry out the same color pattern on
15 the various colored portions of the kitchen and food
16 preparation areas?

17 A. Yes, I have.

18 Q. Now, go on and explain 499, if you would.

19 A. In each of those alternate designs, I've moved the restroom
20 facilities from the entrance area to across the restaurant
21 closer to the seating area, which I feel is a better concept.

22 This design up here is more traditional, if you will,
23 a Taco Bell or McDonald's. Here's the straight line here in
24 which you come in and order against a straight line.
25 Everything flows parallel back towards the back and to the rear

1 door.

2 Q. Why is it better to have the restrooms across?

3 Is the front entrance to this restaurant in the same
4 place?

5 A. It's in the same position.

6 Q. Why is it better to have the restroom clear across on the
7 side of the restaurant?

8 A. Well, I think it causes a lot less confusion. It prevents
9 — makes people that come in use it for a restaurant and not
10 just a bathroom facility that you run in. You're obligated to
11 buy something.

12 And the other thing is — it really is — it just
13 kind of interferes with the flow of the whole restaurant. You
14 can see how this restaurant is more centered to all the food
15 prep.

16 Q. Now, looking down at PX-500 down below, how is that one
17 arranged in terms of the various purposes or functions of the
18 equipment?

19 A. Well, this one, again is — you have an ordering line,
20 which is kind of out of the restaurant dining area. It's over
21 to the side. I guess it's similar to doing it this way.
22 Instead of doing it at an angle, it's cut straight across where
23 you order here, pick up your food, and go out into the
24 restaurant area.

25 Q. Again, the restroom is on the far side of the restaurant

1 from the entrance door?

2 A. That's correct. And, again, the cooking line in each
3 instance has this wall that shields most of the kitchen so you
4 get —

5 Q. You get a feel for the restaurant?

6 A. — You get a feel for the restaurant.

7 Q. Then all the other functions are generally color coded to
8 show the same general functions that are shown in 445 and 446?

9 A. Yeah. They should all be to scale. I traced over these
10 models.

11 Q. Are the areas, the general areas in 499 and 500, about the
12 same as those in 445 and 446?

13 A. Yes, they are.

14 Q. I see. Now, does this exhaust the possibilities, or based
15 on your background and experience, are there a number of other
16 ways they might be arranged to be effective and yet not be a
17 copy of 445?

18 A. There are a number of other ways to arrange it.

19 Q. You can take your seat, again, Mr. Williams.

20 A. (Witness complies.)

21 Q. Now, since Taco Cabana — and you started being involved in
22 their design in Taco Cabana 1 and going through 4 or 5 — have
23 they stuck slavishly to everything, or have they made some
24 changes in the kitchen and the other parts of the restaurant?

25 A. They have made some changes; noticeably, the walk-in

1 cooler.

2 Q. Do you consider those changes to be major changes or minor
3 changes or what?

4 A. They're not major to the public because the public sees
5 what they've seen since Taco Cabana 2 all the way through.
6 Everything out front is the same.

7 Q. You do agree that the trade dress and image and impression
8 of Taco Cabana 2 on through 5 and up to the current time are
9 different than Taco Cabana 1, are they not?

10 A. That's correct.

11 Q. And that was a converted Dairy Queen?

12 A. Yes.

13 Q. And it doesn't even have an outside patio and
14 inside/outside dining room, does it?

15 A. No, it doesn't. It's covered over an asphalt parking lot.

16 Q. And it stayed that way. Do you understand that it had a
17 restriction as to what they could do to the building in that
18 area?

19 A. I'm not aware of that.

20 Q. Now, going to — perhaps you could come down and look
21 briefly at these two models and explain briefly to the jury, if
22 you would, what it is that got changed in Taco Cabana when they
23 built and orchestrated Two Pesos.

24 A. I think you're going to have to repeat the question.

25 Q. Well, looking at these models, perhaps you could explain to

1 the jury how Taco Cabana's layout and organization and
2 arrangement got changed in reaching the Two Pesos arrangement.

3 And I may have to sort of tilt these up for you a
4 little bit so the jury can see it.

5 A. Well, the only changes that I'm aware of is this wall line
6 now is straight, as you can see over here.

7 This area right here is slightly larger than this area
8 right here. They moved this line across. There's one
9 additional garage door out here since this is not cut off at an
10 angle. They've sort of enlarged it.

11 Q. They've enlarged this inside patio by one garage door?

12 A. It looks like it, yes.

13 Q. But is the entrance, the oblique entrance, the same as you
14 described to the jury a few minutes ago?

15 A. Yes.

16 Q. And has an oblique line, ordering line, parallel to it in a
17 similar way?

18 A. That's correct.

19 Q. And they pick up in the same area?

20 A. Yes. Here and here.

21 Q. And the preparation area that's visible from the front
22 ordering area is the same or different?

23 A. It's very, very similar.

24 Q. And in the back kitchen, I take it, it really looks very
25 similar to 445 and 446 that you discussed?

1 A. Yes.

2 Q. As a matter of fact, I will represent to you, Mr. Williams,
3 these are based on the Gessner Two Pesos store and Taco Cabana
4 5, which I believe is what the kitchen design in 445 and 446
5 is.

6 Now, in this area, are there other changes? Looking
7 at the outside of the building, the profile, do they appear to
8 give in your view the same curbstone appeal or opinion or view?

9 A. Yeah. They look like interlocking boxes. This Two Pesos
10 has a small sign for identification on this door here.

11 Q. Do you find the colors to be distinguishing features of the
12 trade dress, or how do you view that as a designer?

13 A. I view it both as hot Mexican colors, vivid colors to
14 attract people.

15 Q. And what about the awnings? In your view, do people see
16 awnings distinctly different, or do they get visual impressions
17 that are vague?

18 A. I get vague visual impressions. I mean, I realize they're
19 awnings. I couldn't tell you without seeing these models what
20 color those awnings are on either store.

21 Q. And you've looked at a number of Two Pesos, have you not,
22 Mr. Williams?

23 A. Yes.

24 Q. Now, in going in those, what was your impression of them as
25 opposed to Taco Cabana that you both were involved in designing

[155]

1 and have seen on many occasions?

2 A. Well, my impression is one of confusion. I think from my
3 experience in restaurants and restaurant designs, I feel that
4 the consumer can't help from being confused or automatically
5 assume they have to be one in [sic] the same thing.

6 Q. Now, in your impression or your experience, do people go to
7 eat in restaurants one right after another, in your experience?

8 Do they go to a Taco Cabana and then immediately go to
9 a Two Pesos?

10 How do people normally approach restaurants such as
11 these fast food restaurants?

12 A. I think most fast food restaurants would consider two to
13 three times a week a nice support level from a consumer and
14 particularly one with an ethnic menu. It may be less.

15 Q. And they go in one or the other and never see them side by
16 side, do they?

17 A. No.

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[156]

[GLENN WILLIAMS]

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2 Q. In your view, Mr. Williams, is there any question that
3 restaurants can come up with a variety of layouts, operations
4 and images that don't look like Taco Cabana but function quite
5 well?

6 A. Yes, I believe that.

7 Q. And do you see any reason why Two Pesos needed to copy it
8 in order to compete in the marketplace for fast food Mexican
9 customers?

10 A. No, other than it was just a real fast way to get in
11 business behind a proven success story.
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[170]

1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

) Civil Action
No. H-87-0026

) Houston, Texas
October 20, 1988
9:30 a.m.

10 VOLUME XVI
11

12 TRANSCRIPT OF TRIAL PROCEEDINGS

13 BEFORE

14 THE HONORABLE JOHN V. SINGLETON, JR.

15 AND A JURY
16
17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
22
23

24 PROCEEDINGS RECORDED BY STENOGRAPHIC
25 MEANS; TRANSCRIPT PRODUCED
BY COMPUTER-AIDED STENOGRAPHY

[JAY DARLING]

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6 Q. In connection with the Two Pesos and Taco Cabana
7 restaurants, what in your view would be non-functional?
8 A. Well, I was in the courtroom when Mr. Brinker testified
9 that in his opinion plants and decor items were non-functional.
10 I'd have to agree with his assessment. Those two
11 items are not functional.
12 I really can't think of any others in a fast food
13 restaurant that would be considered non-functional.
14 Q. Based on your experience in fast food restaurants and your
15 study of the Taco Cabana and Two Pesos stores, have you formed
16 an opinion about how likely customers might be confused?
17 A. Yes, I have.
18 Q. And what is that opinion?
19 A. Well, you'll have to start with letting me tell you that
20 even in my Burger King restaurants, there are people who walk
21 in and ask for a Big Mac.
22 So I believe there's a certain level of the consumer
23 population that's always going to be a little bit confused.
24 By and large, I feel that the restaurants, because of
25 the signage and because of the color, really don't cause the

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1 average consumer to have any kind of confusion.
2 Q. Do you know of any actual confusion which has occurred
3 between Two Pesos and Taco Cabana?
4 A. No, I do not.
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1 UNITED STATES DISTRICT COURT
2 SOUTHERN DISTRICT OF TEXAS
3 HOUSTON DIVISION
4
5

6 Taco Cabana International,
7 Inc., and Taco Cabana, Inc.

8 vs.

9 Two Pesos, Inc.

} Civil Action
No. H-87-0026

} Houston, Texas
November 7, 1988
1:30 p.m.

10
11
12 TRANSCRIPT OF HEARING PROCEEDINGS
13 BEFORE
14 THE HONORABLE JOHN V. SINGLETON, JR.
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17

18 COURT REPORTER:

19 SUZANNE W. FORET
20 515 RUSK, SUITE 7705
HOUSTON, TEXAS 77002
21
22

23 PROCEEDINGS RECORDED BY STENOGRAPHIC
24 MEANS; TRANSCRIPT PRODUCED
25 BY COMPUTER-AIDED STENOGRAPHY

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8 The Court: Now, frankly, under the facts of this
9 case, I will have to conclude that the actions of Two Pesos was
10 deliberate — was willful in the sense it was deliberate.

11 I don't think there's any question about the fact
12 that Two Pesos deliberately attempted to copy Taco Cabana's
13 trade dress and the jury has found that there was a trade dress
14 and that it's protectable.

15 Under the facts of the case and listening to the
16 witnesses and judging the credibility myself, I can come to no
17 other conclusion than to find that Two Pesos' actions were
18 willful in the sense that it was deliberate.

19 I don't think it was necessarily unlawful. I
20 don't think it was immoral. But it was deliberate. It was a
21 deliberate act of attempting to and accomplishing copying Taco
22 Cabana's trade dress. So I have to go along that route.

23 Now, having said that, from what I've cursorily
24 read from your memorandum, Mr. Sutton, having said that, I'm
25 called upon to some way enhance the damages.

1 And then we've got the problem of attorneys'
2 fees, if any. So that's where I am.
3 Mr. Sutton: well, Your Honor, I would like to, of
4 course, respond to that both now and in writing, if I could,
5 because we only got their briefs this morning.
6 The Court: I understand. Fine.
7 Now, everything you filed insofar as I can
8 determine, there's nothing new. You urged the same thing
9 during the course of the trial.
10 Mr. Gambrell: I believe that's true, Your Honor.
11 The Court: In one way or another, every point of law
12 was introduced at trial. I know I couldn't find anything new.
13 Mr. Durkee: Well, I think what's new is the jury's
14 verdict because I think there are two issues that say that we
15 won.
16 The Court: What issue is that?
17 Mr. Durkee: No. 4.
18 The Court: No secondary meaning?
19 Mr. Durkee: No secondary meaning.
20 The Court: That's the mark.
21 Mr. Durkee: And No. 10, which said that the kitchen
22 and restaurant operating procedures are not a trade secret.
23 The Court: Are not a trade secret, right.
24 Mr. Durkee: So the only thing left is what's under
25 the open records act.

1 The Court: They're not a trade secret.
2 Well, we've already gone into the open records
3 act. That argument has already been made. I disagree with
4 it.
5 Mr. Durkee: I just want to point out that under —
6 the only thing that wasn't under the open records act, the jury
7 found not to be a trade secret.
8 Then the jury also found that there was no
9 secondary meaning.
10 The Court: In the Texas market.
11 Mr. Durkee: Which I think gives us — or should give
12 us a judgment.
13 The Court: But you don't find any cases on that.
14 Mr. Durkee: Your Honor, I —
15 Mr. Montalvo: Your Honor, the Fifth Circuit
16 specifically says that if a trade dress is found to be
17 inherently distinctive, it need not show secondary meaning.
18 That is the law of the Fifth Circuit.
19 The Court: I understand that. I understand that.
20 Mr. Durkee: The Fifth Circuit says it's a
21 presumption. It's a presumption under Rule 301 of the Rules of
22 Evidence that can be rebutted. I think the jury rebutted it,
23 and I think we did. I think that four is control.
24 The Court: Well, I don't want to make any judgment on
25 that at this time. I wondered about that, about what you were

1 going to say about that jury finding of no secondary meaning,
2 no secondary meaning in the Texas market. I'm going to have to
3 think about that.

4 But, basically, I think that when they find that
5 it is inherently distinctive, which they found it was, you
6 don't have to have secondary meaning. That's my understanding
7 of the case law.

8 Mr. Durkee: But we cite the Cecilian (spg) case that
9 says it's a presumption.

10 Mr. Gambrell: And there is no less than three Fifth
11 Circuit cases specifically saying it's not necessary,
12 regardless of what Cecilian says.

13 Mr. Durkee: Unless it's rebutted. I agree with
14 that.

15 But the other point, Your Honor, that I would
16 like to make is that on issue No. 3 concerning inherently
17 distinctive, there was no limitation in that about a particular
18 market. And it's fatally defective for that reason alone.

19 The Court: Well, I understand you're going to appeal
20 this. That I understand. I don't blame you.

21 But I'm faced with the jury's verdict. I'm faced
22 with my prospective of the evidence and the credibility of the
23 witnesses, which I have some serious doubt about some of them.

24 I'm certain that whatever judgment I enter,
25 you're probably going to want to stay the effect of the

1 judgment pending appeal. Am I correct about that? And I would
2 grant that. I would stay it pending appeal.

3 But I'm pretty well committed, unless there's
4 some way you can persuade me otherwise, as I said, that the act
5 of Two Pesos in this case was willful in the sense it was
6 deliberate. And that causes me to more than likely enhance the
7 jury verdict because under the Act, as I understand it, you can
8 do that if it was willful.

9 Mr. Gambrell: That's correct, Your Honor.

10 Mr. Durkee: No, Your Honor, I disagree with that.

11 Mr. Gambrell: Under local finding you can.

12 Mr. Durkee: The Act specifically says that it can
13 only be compensation. It cannot be a penalty.

14 The Court: I understand that.

15 Mr. Durkee: Mr. Gambrell's brief — I did read it
16 about an hour ago, and it talks about punishment. And that's
17 specifically prohibited by the Act.

18 The Court: I understand that whatever I do is not
19 designed as punishment. It's merely compensation for the
20 willful act.

21 Mr. Durkee: Right.

22 Mr. Gambrell: That's correct.

23 Mr. Sutton: I would disagree with that, Your Honor.
24 I think it would be compensation to the plaintiff for the
25 activity of the defendant.

1 The Court: Right.

2 Mr. Sutton: And here, we would point out, that there
3 were no actual damages as we've argued in our brief.

4 The Court: Well, the jury actually found actual
5 damages.

6 Mr. Sutton: Yes. And I would point out to you in Mr.
7 Gambrell's briefing —

8 The Court: The jury found actual damages.

9 Mr. Sutton: Well, I understand that, Your Honor.

10 Mr. Gambrell: With their theory of tripling or
11 enhancing damages, Your Honor, you can never do it because
12 their theory is if you enhance it, it's penalizing and,
13 therefore, you can't do it.

14 It's obvious that it's compensation for the
15 willfulness and deliberateness of these plaintiffs.

16 Mr. Sutton: Mr. Gambrell's brief did not in any place
17 point out where it was inadequate. It did not point that out
18 anywhere.

19 The Court: You mean where the amount found by the
20 jury was inadequate?

21 Mr. Sutton: Exactly, Your Honor. That's what it's
22 supposed to be for. And I think the terminology that you're
23 using, that Two Pesos' actions were deliberate —

24 The Court: Willful in the sense it was deliberate.

25 Mr. Sutton: Correct. But deliberate, I think as you

1 recognize, does not equate to any particular bad activity here.

2 The Court: It was deliberate in the sense that it was
3 deliberately done. And since it was deliberately done, there's
4 no question from the facts in the case that it has caused
5 damages to Taco Cabana.

6 Mr. Sutton: But I would like to point out too, Your
7 Honor, that in the sense of Two Pesos' activities being
8 something — did they know that what they were doing was going
9 to be an infringement or not? I think you —

10 The Court: The reason, Mr. Sutton, they thought that
11 is because, according to the witnesses and according to Mr.
12 McDermott himself, in the restaurant business there is no such
13 thing as trade dress. That's what your witnesses said.

14 Mr. Sutton: I think it goes further than that, Your
15 Honor.

16 The Court: That's what they said, that they didn't
17 think — and Mr. Darling, your man from Burger King, said the
18 same thing. He didn't think there was any such thing in the
19 restaurant business as trade dress or that there was any such
20 thing as copying, illegally copying the trade dress.

21 Mr. Sutton: But I think it's more than that, Your
22 Honor.

23 They also indicated that they were trying to keep
24 a comfortable distance from Taco Cabana, and they did that in a
25 lot of ways. They didn't copy nut for nut and bolt for bolt,

1 the idea.

2 Mr. Gambrell: They didn't show that, Mr. Sutton,
3 that's perhaps true. But very rarely is a copier going to
4 slavishly copy every point.

5 The fact of the matter is the jury determined
6 that they took the trade dress that is protectable to Taco
7 Cabana.

8 The Court: I'm stuck with the jury's finding that
9 there was trade dress and it was protectable and that you had
10 trade secrets —

11 Mr. Sutton: I understand that, Your Honor. But I
12 would also like to —

13 The Court: — And that you misappropriated two of the
14 trade secrets.

15 Mr. Sutton: I would also like to make the point that
16 in the sense of willfulness, this is a lot different from the
17 standpoint of a situation where you have a registered trademark
18 and a defendant can look —

19 The Court: But is it any different?

20 Mr. Sutton: Pardon?

21 The Court: It's not any different. Once you find
22 that the trade dress is protectable, it has the same legal
23 meaning as a registered trademark.

24 Mr. Gambrell: Exactly.

25 Mr. Sutton: But not at the point in time where you're

1 adopting what you're doing.

2 The Court: When you take sophisticated people, as
3 these people were — they weren't novices or just
4 Johnny-come-latelys.

5 Mr. Gambrell: Mr. McDermott was proud of his
6 experience in that area.

7 The Court: They're sophisticated people in the
8 restaurant business and in this area of the fast food
9 restaurant business.

10 I'm just — I think the evidence is too
11 overwhelming in my mind. And the witnesses, listening to the
12 witnesses, observing their credibility, indicates to me that
13 what they did, they did on purpose, they did it deliberately
14 and they did it because it was a good thing, and they tried to
15 appropriate it for their own use. There's no question about
16 that.

17 Mr. Gambrell: Apropos, Your Honor, the point you
18 make, willful as not being necessarily bad, I mean in a
19 pejorative sense. In the Amwick case (spg) it's important to
20 note that the Lanamac as opposed to criminal law determines the
21 term "willfulness" does not necessitate prior finding that
22 defendant either intended to steal plaintiff's trademark or
23 produce a counterfeit.

24 It merely says that it can be met by showing
25 simply that the infringement was not accidental and it was done

1 knowingly and with disregard of the rights of the markholder.

2 That's exactly what willfulness is about as a
3 finding.

4 The Court: Well, I understand all that. But I still
5 do not know what type of judgment to enter.

6 Mr. Sutton: Now, we'd like to file a brief in
7 response to their motion, Your Honor.

8 The Court: I'm going to have to study that and any
9 response you want to make.

10 Everything I cursorily read that you filed was
11 rehashing of points that I've already ruled on except possibly
12 this secondary meaning situation, which I haven't even
13 studied. I apparently must have overlooked it.

14 Mr. Gambrell: We have responded to that, Your Honor.

15 The Court: I don't remember you making any point.
16 I'm not surprised that you didn't.

17 Mr. Durkee: No, I did, Your Honor. In fact, during
18 the jury charge I specifically said that that inherent
19 distinction is not a jury issue and that it was a presumption.

20 Mr. Gambrell: I think our response to that motion,
21 Your Honor, deals clearly with Fifth Circuit cases that do not
22 require those to be —

23 The Court: I'd like to get this thing over with. I
24 don't want it to hang on. I'm not one that likes to sit on
25 these and ponder them. I learned years ago it doesn't get any

1 easier. I want to get rid of it. I want to enter some
2 judgment.

3 I thought it fair to tell you where I was coming
4 from.

5 Mr. Durkee: We appreciate it.

6 Mr. Gambrell: Your Honor, the reason we suggested the
7 approach on attorneys' fees is that it seemed to us to decide
8 if attorneys' fees should be given and then we could decide at
9 a short hearing —

10 The Court: I have to decide if those fees are going
11 to be given first. If I decide that, I'll have to have some
12 hearing about the reasonableness of attorneys' fees other than
13 just dreamed up.

14 Mr. Sutton: Your Honor, I would like to make just two
15 more points in the willfulness area.

16 Here I think it should be judged or thought of
17 from the standpoint too of back in the time frame of when the
18 appearance of Two Pesos was adopted, did Two Pesos know that
19 that trade dress, that appearance, was protectable?

20 I would point out to the court, too, about in
21 terms of just drafting the jury charge and the charge on
22 functionality, the difficulty there, I think, shows that this
23 is an area of the law that's not crisp, that is not clear.

24 The Court: I understand that, Mr. Sutton. And you're
25 correct about that.

1 But I get back to the fact that I'm not dealing
2 with novices. I'm dealing, in this case, with very
3 sophisticated businessmen in this area, and they knew that they
4 were copying Taco Cabana's trade dress. They knew it. You
5 can't put blinders on. Everything has a little common sense
6 attached to it.

7 And the clincher to me as a trial judge was when
8 I took the jury on a jury view.

9 I had never been inside either one of these
10 restaurants. The similarity is overwhelming in every aspect,
11 every single aspect of the restaurant. There is not one that
12 similarity does not overwhelm. And the conclusion is obvious
13 that Taco Cabana got there first and Two Pesos copied them.

14 That was my impression and apparently the jury's
15 impression too because they were pretty adamant about that
16 situation themselves.

17 So that's where I'm going. That's where I'm
18 coming from and that's ultimately where I'm going to go.

19 When you get down to the details of the
20 injunction, I do not know where to go. I would think you and
21 ~~your clients~~ ought to be able to work out something in between
22 demolishing and a sign.

23 Do you understand what I'm saying?

24 Mr. Gambrell: That's probably the far corner of the
25 two proposals.

1 The Court: It has got to be something reasonable
2 that's in between that.

3 I'm not interested in putting Two Pesos out of
4 business. I don't think the facts of this case justify it.

5 There's a legitimate place for these two
6 establishments in the same niche of business to compete with
7 each other without the identity of the appearance.

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The following citations represent a sampling of the trial testimony in which the court, Taco Cabana's counsel and several witnesses misleadingly testified to the Taco Cabana concept in a way that either overtly or implicitly suggested it was protectable in and of itself.

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5, ll. 9-25
6, ll. 1-13
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TACO CABANA

TRADE DRESS AGREEMENT

This Agreement is entered into by and between TACO CABANA #1, INC., TACO CABANA #3, INC., TACO CABANA #5, INC., TACO CABANA #6, INC., TACO CABANA #8, INC. (collectively the "M Group"), TACO CABANA #2, INC., TACO CABANA #4, INC., TACO CABANA #7, INC., TACO CABANA #9, INC. (collectively the "F Group"), and TACO CABANA INTERNATIONAL, INC. ("International").

WHEREAS, ownership of the chain of restaurants known as the "Taco Cabana Restaurants" is being divided between the M Group and the F Group, the parties desire sufficient formal controls and agreements to be implemented to insure that the quality expectations of customers are fully met and to protect the trade dress and other proprietary rights of the Taco Cabana chain of restaurants and to formalize their agreements concerning these matters, they agree, subject to any right which may be held by any unrelated third party lessor of the parties hereto to prevent the change of building appearance or decor, as follows:

1. LICENSE The M Group and the F Group each hereby grant a limited license to the other to use the trade dress the other is currently using to the limited extent permitted herein subject to each licensee party maintaining the quality of its goods and services at least equal to the quality of its current goods and services.

TRADEDRE.2
86/12

2. COLOR. Each Group is entitled to use and continue using the color pink including any shade of pink and/or any other color as a prominent feature of its trade dress.

3. EXISTING BUILDINGS. Each Group may change, but is not required to change, the appearance of any existing restaurant. Each Group shall be given possession of the plans and specifications of the Taco Cabana restaurants owned by such Group if such plans and specifications are available to or in the possession of any member of either Group.

4. FUTURE CONSTRUCTION. Subject to quality being maintained as set forth in Part 1 herein any future restaurant of the F Group or which is licensed by the F Group may use any or all of the current trade dress of the existing F Group Taco Cabana restaurants. Any future restaurant which is owned by the M Group or which is licensed by the M Group may use any or all of the current trade dress of the existing M Group Taco Cabana restaurants. The F Group and the M Group each agree to use reasonable efforts to modify their trade dress for their respective future restaurants sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind.

5. TWO PESOS LITIGATION. The M Group and the F Group hereby assign to International any and all rights they may have against the business known as "Two Pesos" and its successors in Houston, Texas, or any other city for injunctive relief and/or damages for infringement of their trade dress, the Taco Cabana trade dress and all other "Taco Cabana" intangible proprietary

TRADEDRE.2
86/12

interests and hereby assign any and all such rights as they may have against any other persons or entities which may be jointly liable with Two Pesos for such acts or may have directed, participated in or profited from such acts of Two Pesos. International will take such action in this matter as it believes to be warranted.

6. The language of this Agreement shall be construed according to its fair meaning and not for or against any party. This is the entire agreement with respect to the trade dress of the Taco Cabana restaurants and it may only be amended by written agreement, shall be construed under the laws of the State of Texas, and inures to the benefit of the parties, successors and assigns.

IN WITNESS HEREOF, the undersigned has set forth their respective signatures.

TACO CABANA #1, INC.

By: _____

TACO CABANA #3, INC.

By: _____

TACO CABANA #5, INC.

By: _____

TRADEDRE.2
86/12

TACO CABANA #6, INC.

By: _____

TACO CABANA #8, INC.

By: _____

TACO CABANA #2, INC.

By: _____

TACO CABANA #4, INC.

By: _____

TACO CABANA #7, INC.

By: _____

TACO CABANA #9, INC.

By: _____

TACO CABANA
INTERNATIONAL, INC.

By: _____

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EDITOR'S NOTE

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No. 91-971

SEARCHED INDEXED
MAR 11 1992
U.S. SUPREME COURT

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

v.

TACO CABANA INTERNATIONAL, INC., *et al.*,

Respondents.

On Writ of Certiorari to the United States
Court of Appeals for the Fifth Circuit

JOINT APPENDIX

Volume II

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PETITION FOR CERTIORARI FILED OCTOBER 18, 1991
CERTIORARI GRANTED JANUARY 27, 1992

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The Jury's Worksheets on Its Damages Calculations,
No. 41



Exterior View of Taco Cabana



Exterior View of TaCasita

RESTAURANT OPENINGS & LOCATIONS

INSIDE TEXAS

TWO PESOS

TA CASITA

TACO CABANA

Company	Date Opened	Location
HOUSTON		
Two Pesos	12/10/85	1611 Gessner, Houston
Two Pesos	2/17/86	8101 S. Main, Houston
Ta Casita	2/28/86	5540 Richmond, Houston
Two Pesos	5/01/86	Galveston Place, Galveston
Two Pesos	6/02/86	8902 Richmond, Houston
Two Pesos	6/24/86	3905 Kirby, Houston
Two Pesos	8/11/86	10 West FM 1960, Houston
Two Pesos	2/26/87	Highway 290, Houston
Two Pesos	4/21/87	Westheimer/Nantucket, Houston
Two Pesos	9/02/87	11079 Westheimer, Houston
Two Pesos	10/23/87	705 W. Bay Area Blvd., Webster
Taco Cabana	10/28/87	700 N. Loop West 610, Houston
Two Pesos	10/29/87	6695 Hillcroft, Houston
Taco Cabana	12/05/87	9220 Gulf Freeway, Houston
Two Pesos	1/12/88	7400 FM 1960 West, Houston
Taco Cabana	2/22/88	6890 Harrisburg, Houston
Two Pesos	4/01/88	I-45 at Tidwell, Houston



RESTAURANT
OPENINGS &
LOCATIONS

INSIDE
TEXAS

TWO PESOS

TA CASITA

TACO CABANA

Company	Date Opened	Location
---------	----------------	----------

AUSTIN

Ta Casita	1/31/86	8415 Research, Austin
Taco Cabana	5/14/87	711 E. Ben White, Austin

SAN MARCOS

Taco Cabana	11/25/87	135 Long Street, San Marcos
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EL PASO

Two Pesos	12/16/87	Mesa Ave. at I-40, El Paso
Taco Cabana	2/02/88	1777 Lee Trevino, El Paso
Taco Cabana	7/18/88	5866 N. Mesa, El Paso



RESTAURANT OPENINGS & LOCATIONS

INSIDE TEXAS

TWO PESOS

TA CASITA

TACO CABANA

717-832-2100

Company	Date Opened	Location
---------	----------------	----------

DALLAS-FORT WORTH

Two Pesos	5/18/87	4355 Camp Wisdom Road, Dallas
Two Pesos	6/20/87	1505 N. Collins, Arlington
Taco Cabana	7/22/87	3071 W. Northwest Hwy., Dallas
Two Pesos	8/19/87	12475 E. Northwest Highway, Dallas
Two Pesos	9/16/87	3700 S. Cooper, Arlington
Taco Cabana	10/14/87	3923 Lemmon Avenue, Dallas
Two Pesos	1/28/88	Greenville at Alta, Dallas
Taco Cabana	3/14/88	6600 Camp Bowie, Fort Worth
Two Pesos	4/11/88	7669 Grapevine Hwy., Fort Worth
Taco Cabana	4/25/88	6615 E. Northwest Hwy., Dallas

SAN ANTONIO

Taco Cabana	9/21/78	3310 San Pedro, San Antonio
Ta Casita	4/14/83	5630 Wurzbach, San Antonio
Taco Cabana	3/09/84	8629 Perrin Beltei, San Antonio
Ta Casita	8/23/84	1633 S.W. Military Dr., San Antonio
Taco Cabana	7/01/85	4205 Fredericksburg, San Antonio
Taco Cabana	10/01/85	15925 San Pedro, San Antonio
Taco Cabana	1/03/86	9603 San Pedro, San Antonio

TACO CABANA V.1
TWO PESOS
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**RESTAURANT
OPENINGS &
LOCATIONS**

**OUTSIDE
TEXAS**

TWO PESOS

TA CASITA

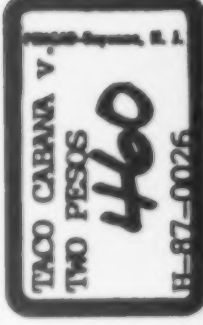
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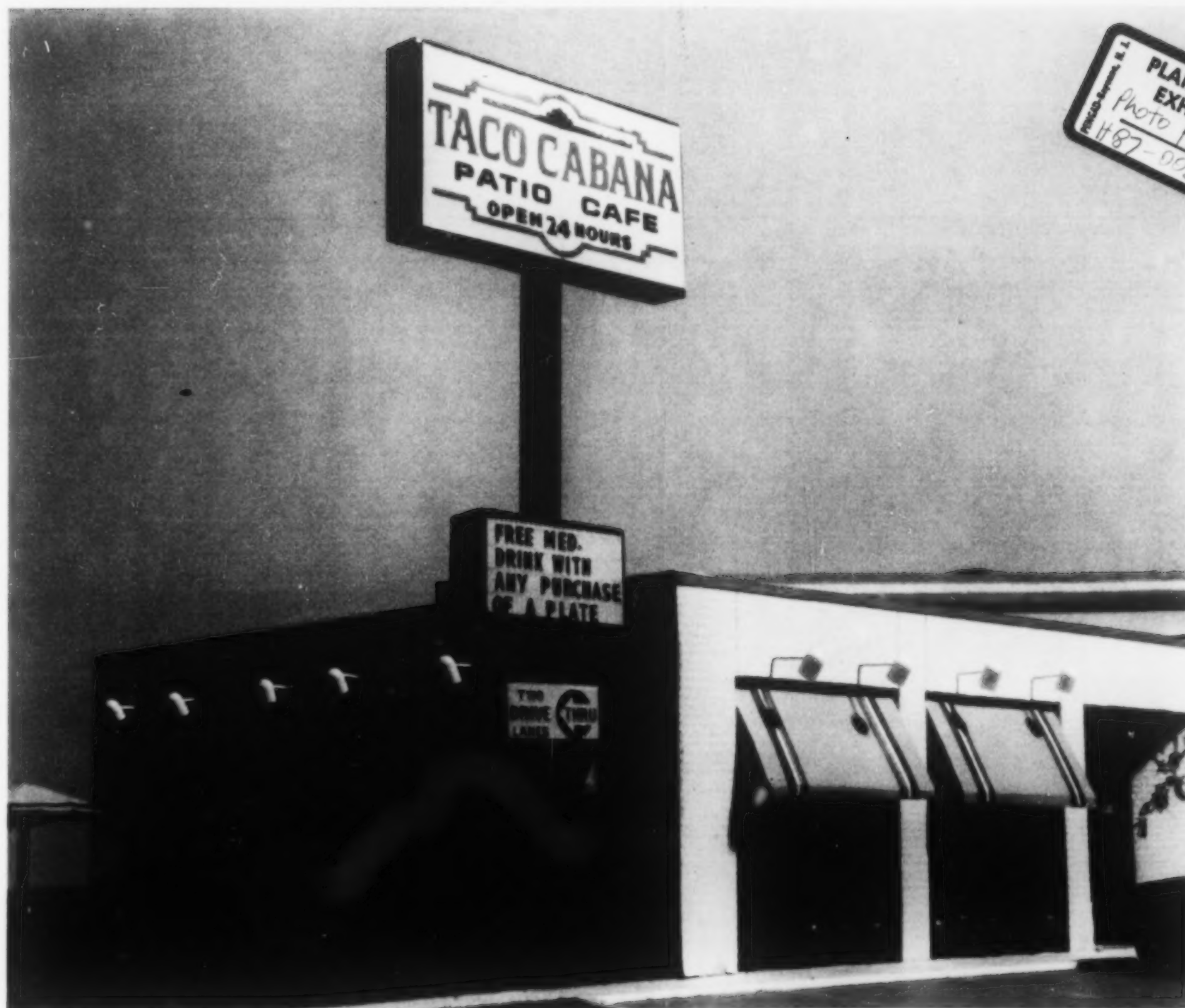
RESTAURANT

Company	Date Opened	Location
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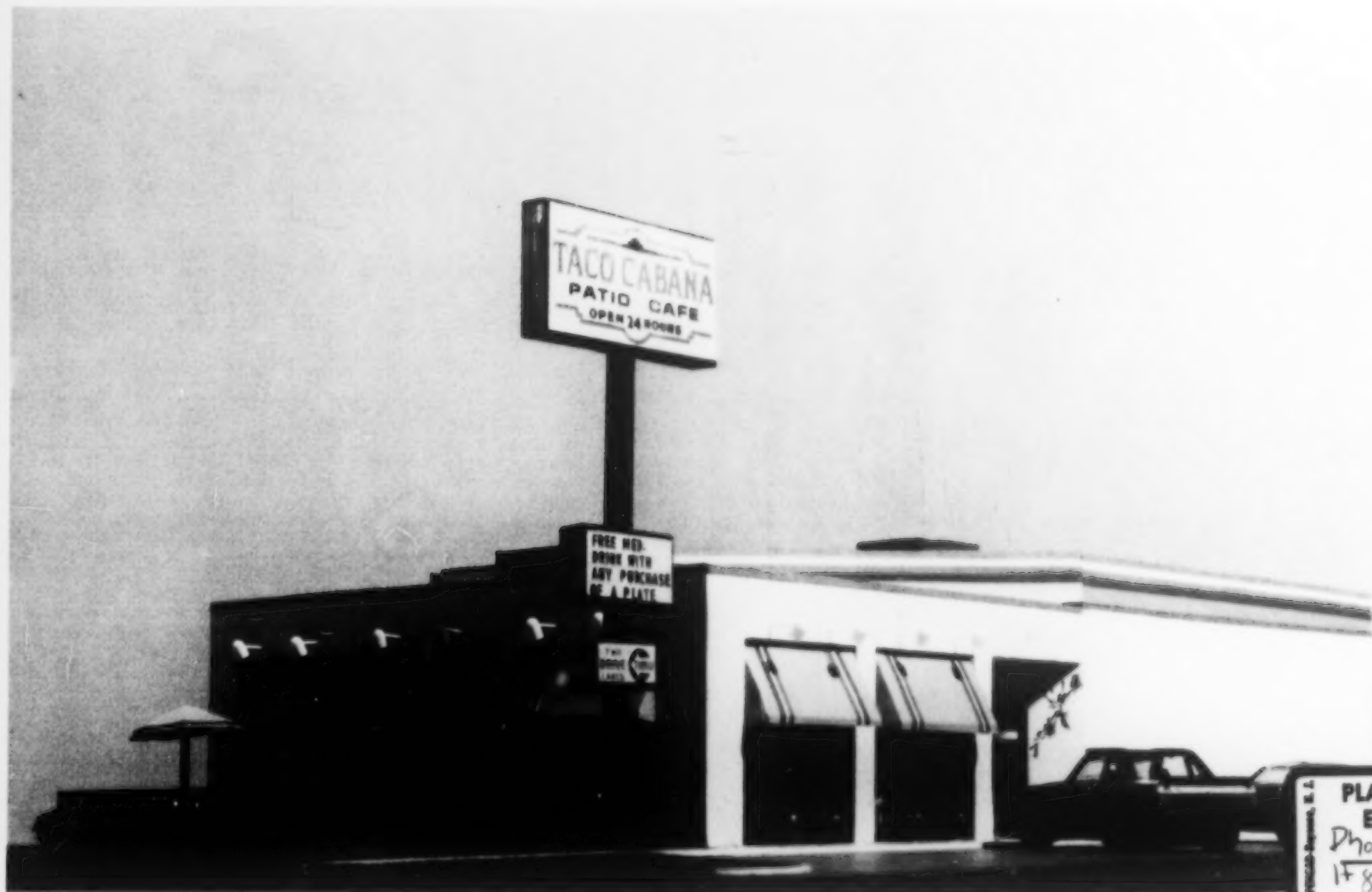
VARIOUS CITIES

Two Pesos	10/19/86	8900 Wadsworth Blvd. Denver, Colorado
Two Pesos	6/01/87	Military Highway Norfolk, Virginia
Two Pesos	1/08/88	Meridian Ave. at N.W. Highway Oklahoma City, Oklahoma
Two Pesos	2/15/88	74th St. at Pennsylvania Oklahoma City, Oklahoma
Two Pesos	3/31/88	Northwestern Ave. at I-44 Oklahoma City, Oklahoma
Two Pesos	4/17/88	412 Meridian Ave. at Reno Ave. Oklahoma City, Oklahoma
Two Pesos	4/28/88	1735 E. Southern Ave. Tempe, Arizona
Two Pesos	6/24/88	1855 Piedmont Ave. N.E. Atlanta, Georgia
Two Pesos	8/06/88	Second Restaurant Norfolk, Virginia



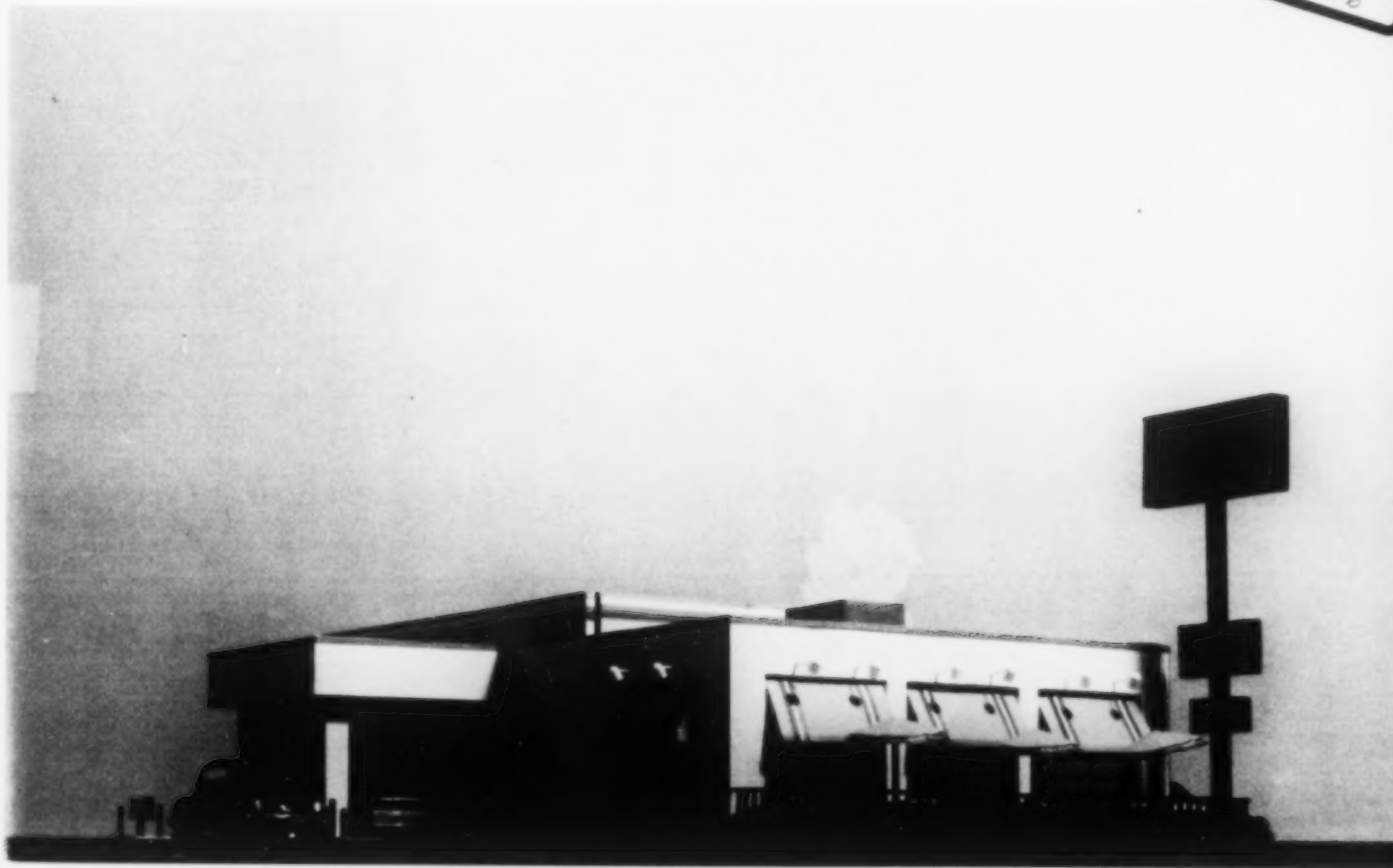


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Photo PX-3
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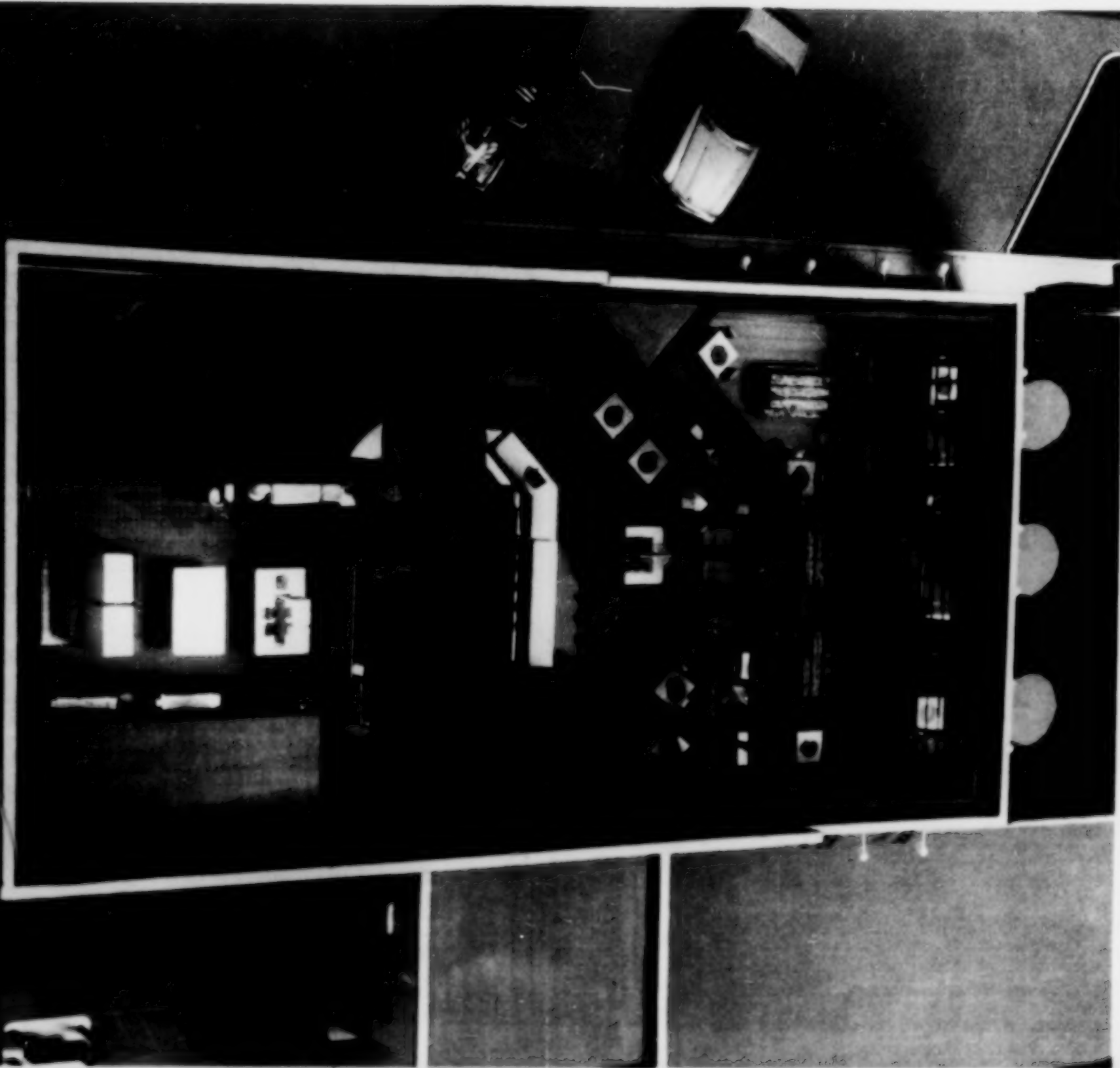
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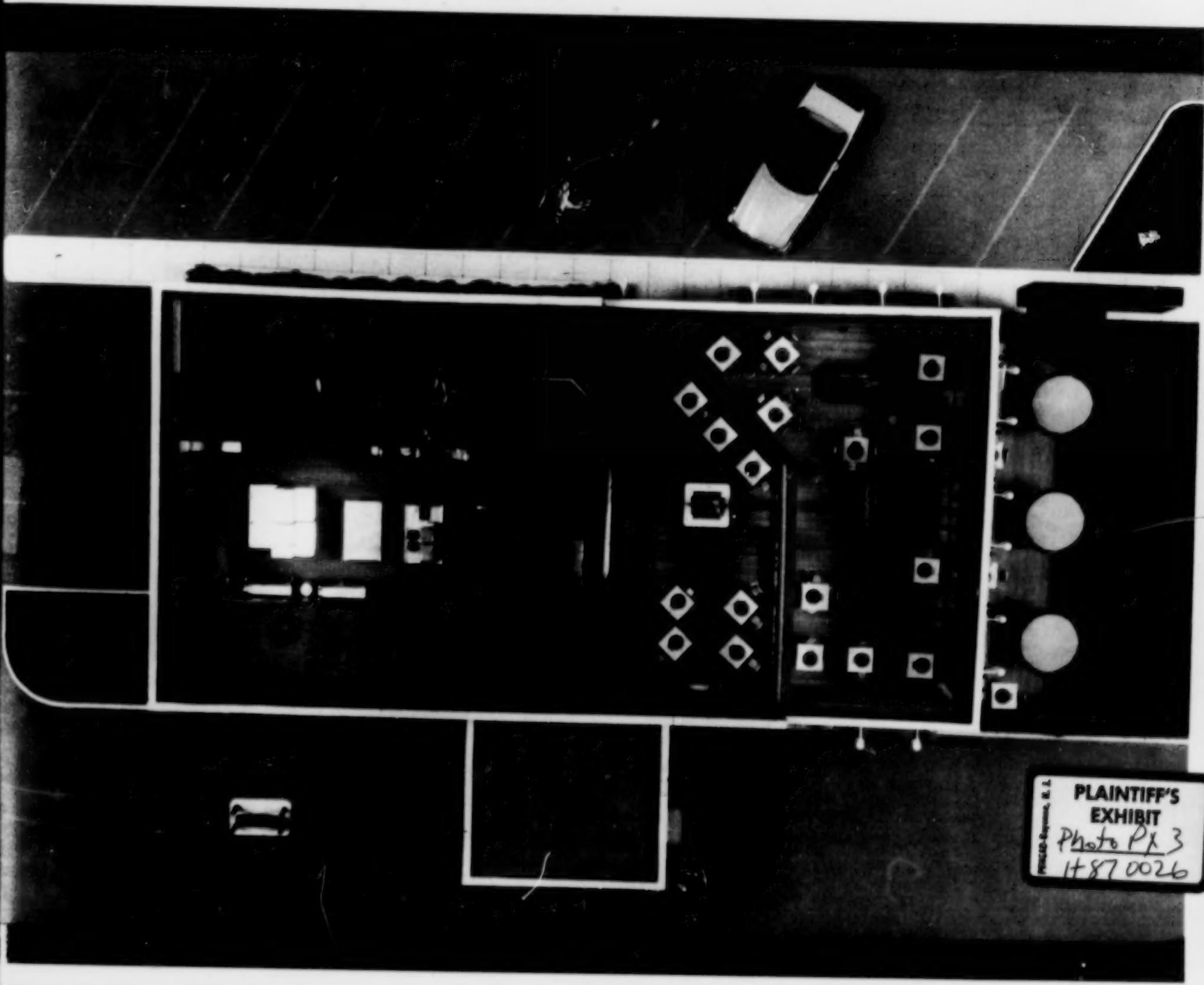
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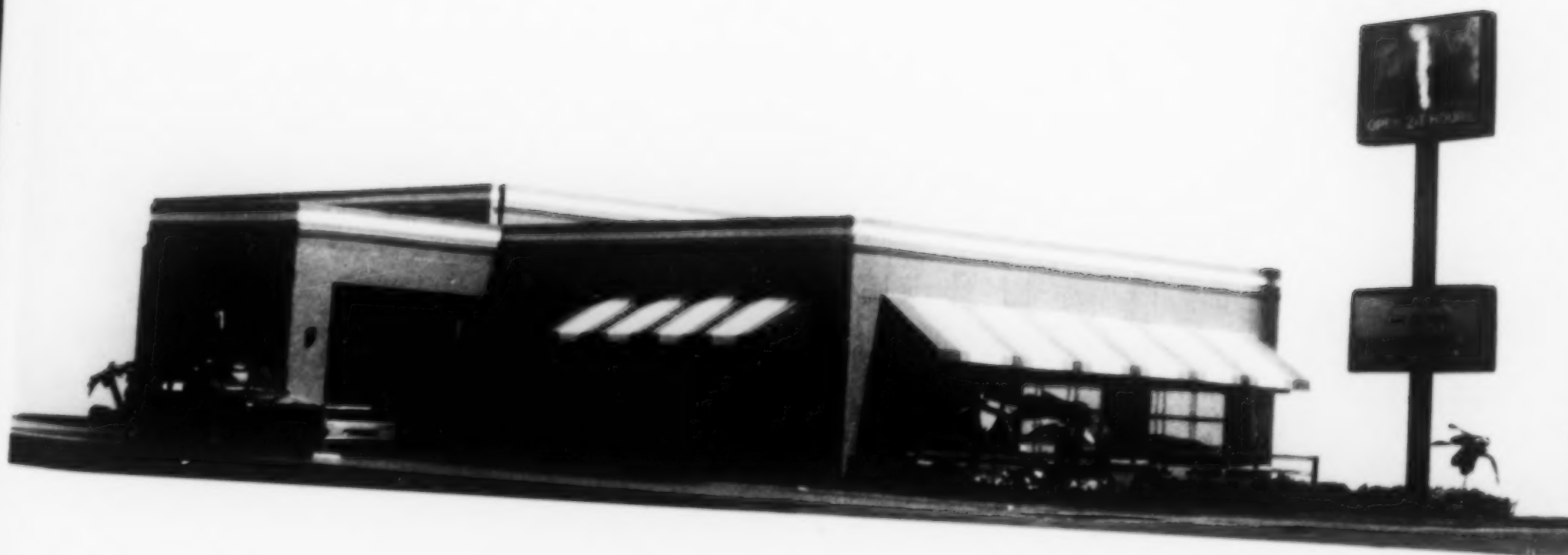
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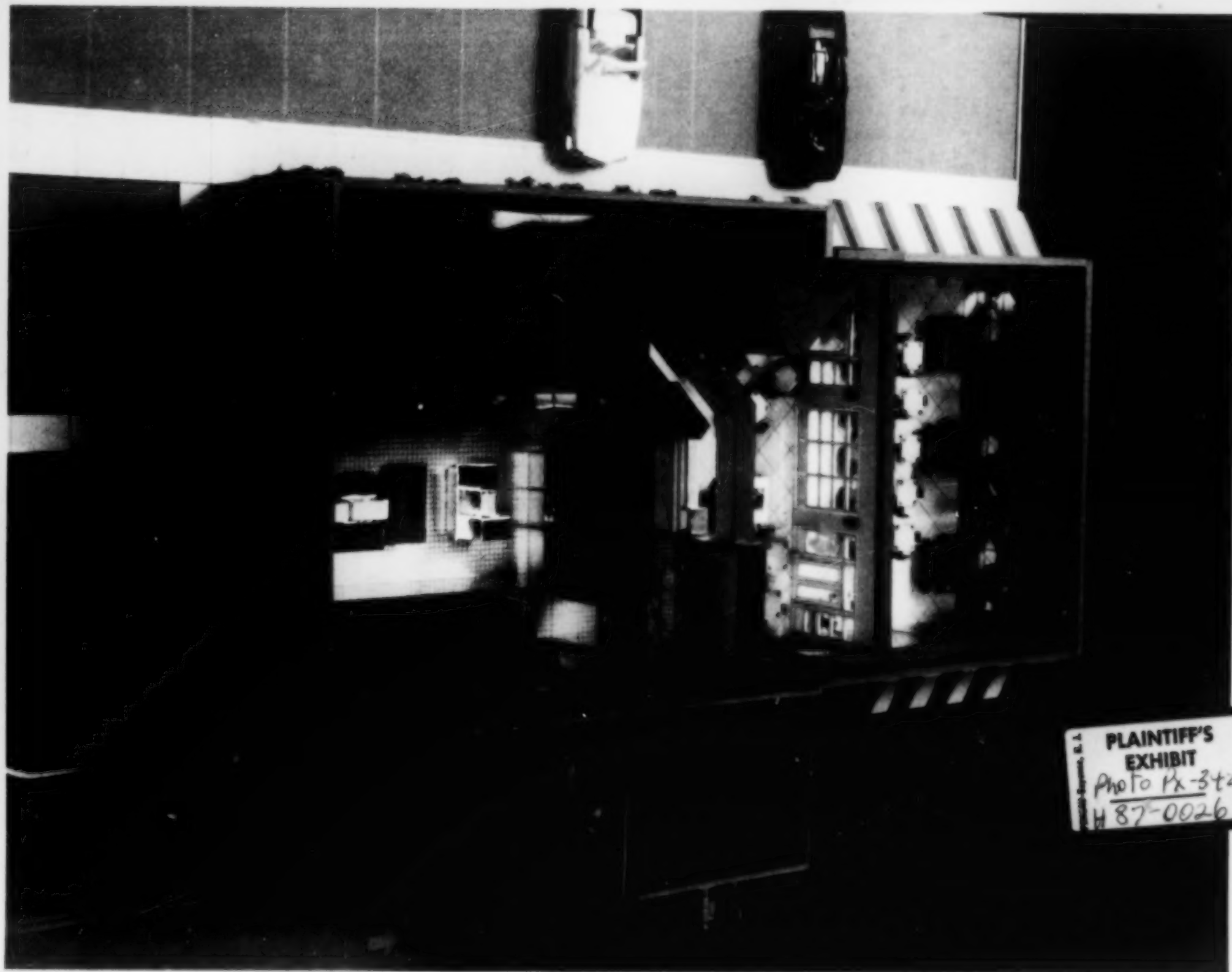
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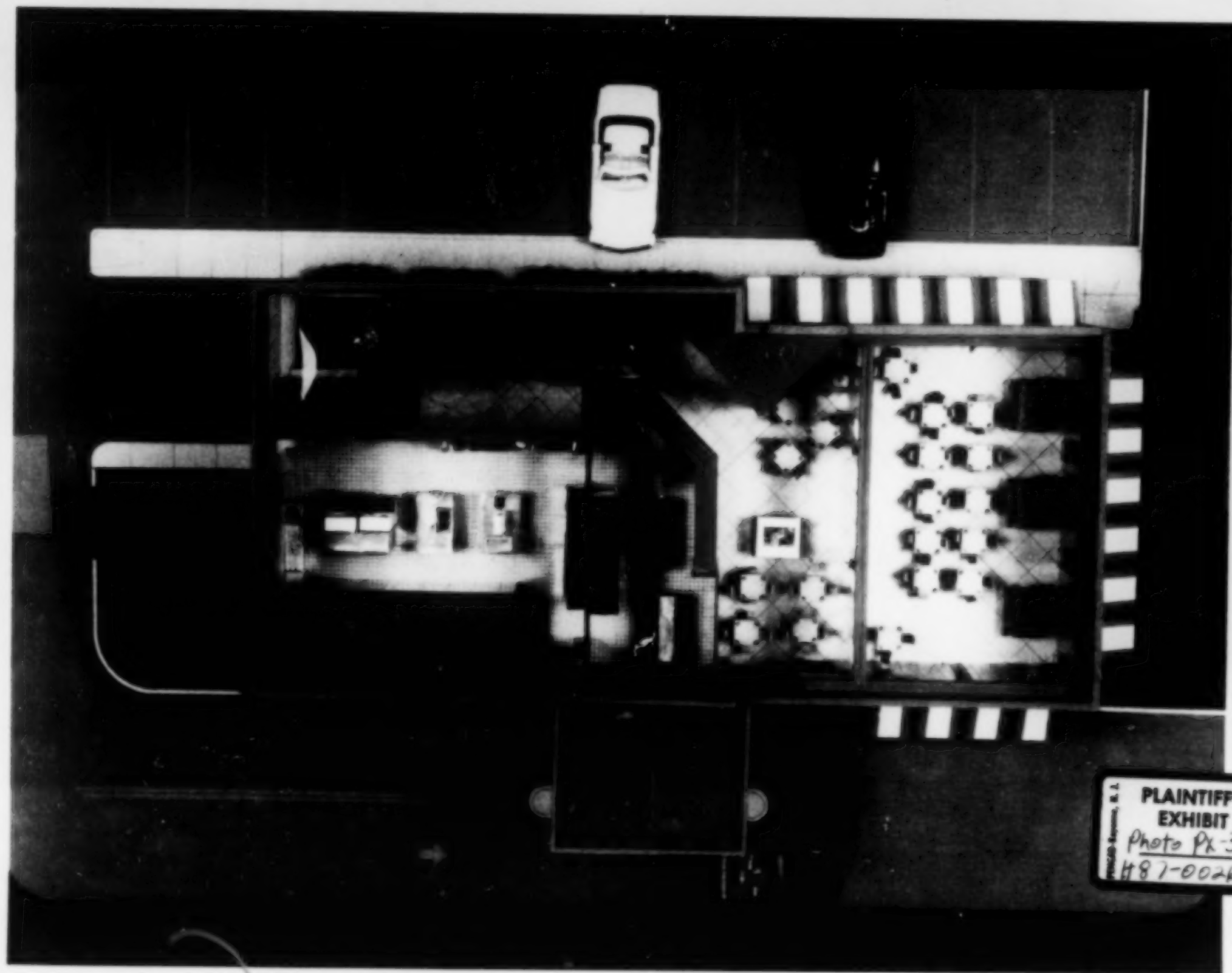


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PLAINTIFF'S
EXHIBIT
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PENCAD-Exposure, R. 1.

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PENCAD-Exposure, R. 1.

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PENCAD-Exposure, R. 1.

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PERCADO-Exposure, N.Y.

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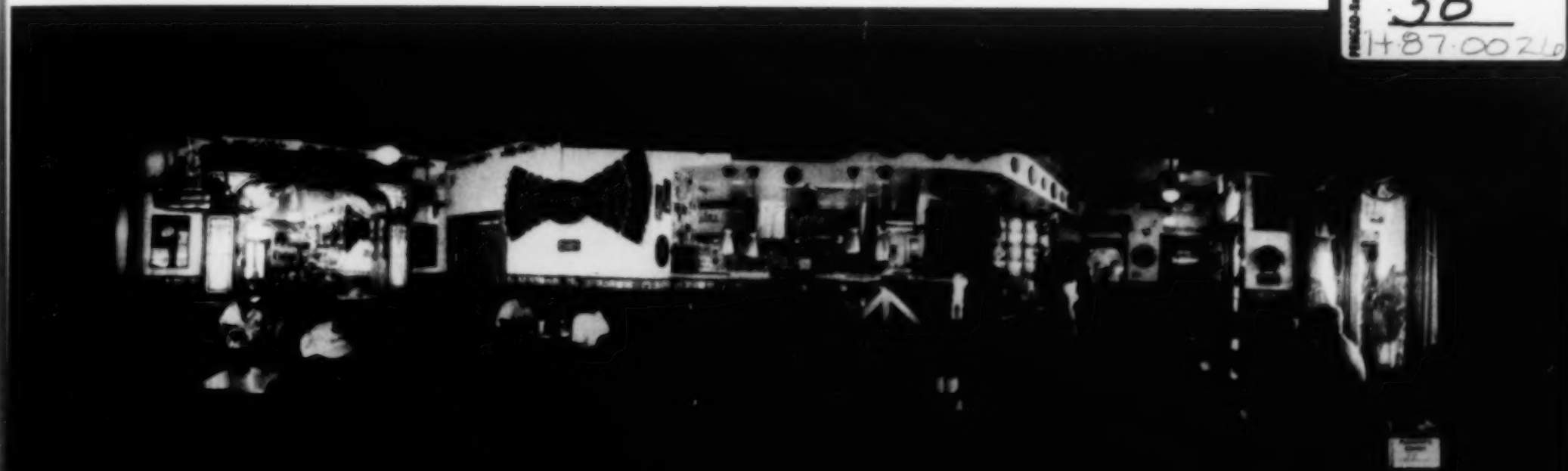


PERCADO-Exposure, N.Y.

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PENCAD-Bygonne, M. I.

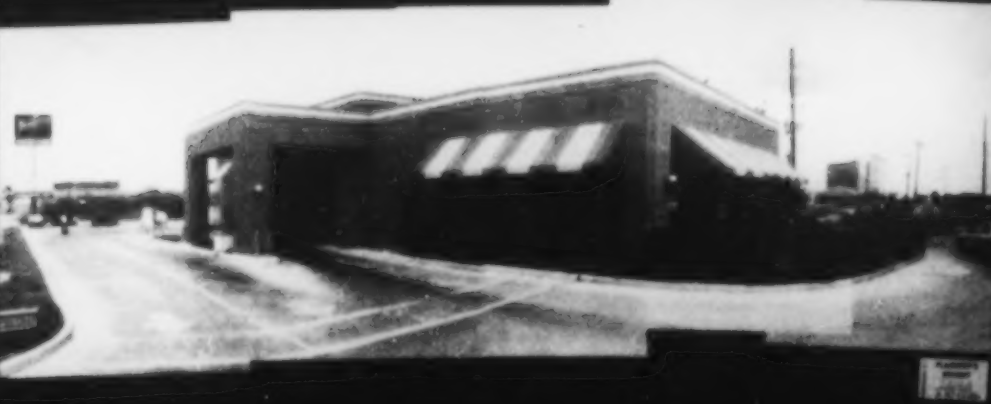
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PLAINTIFF'S
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325A

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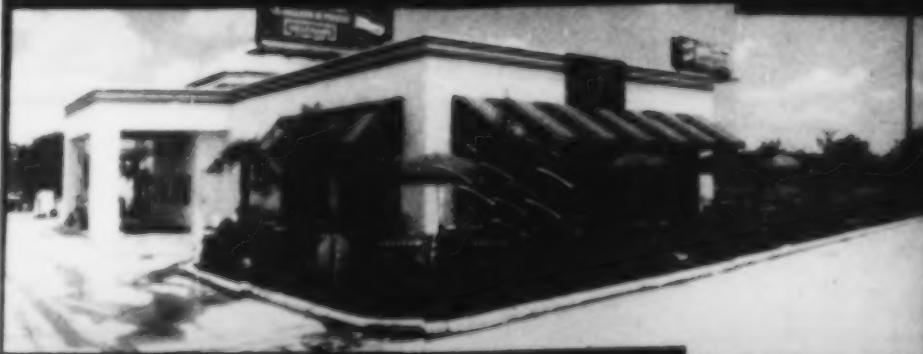


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PERCIB-Baymont, N. J.
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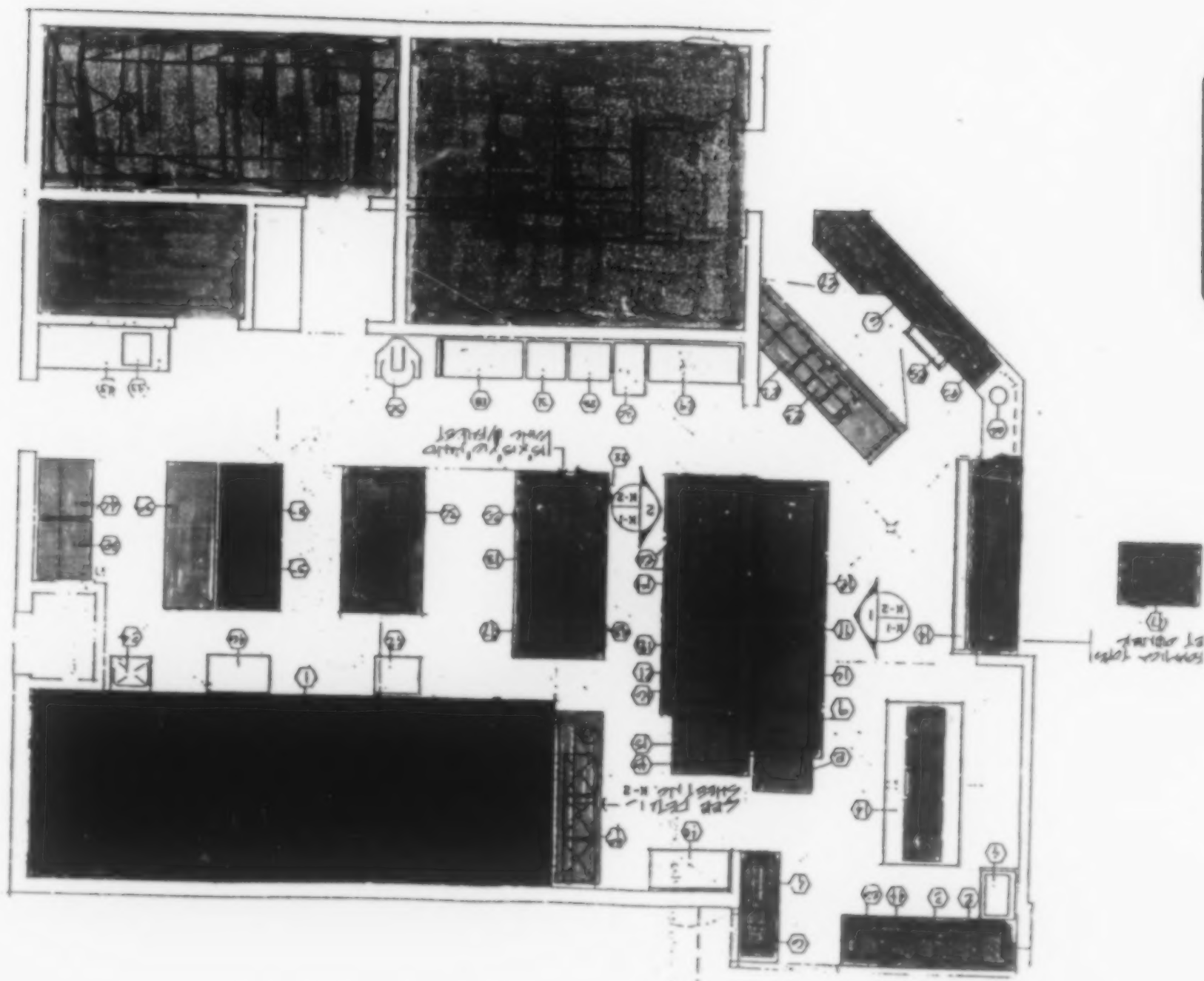
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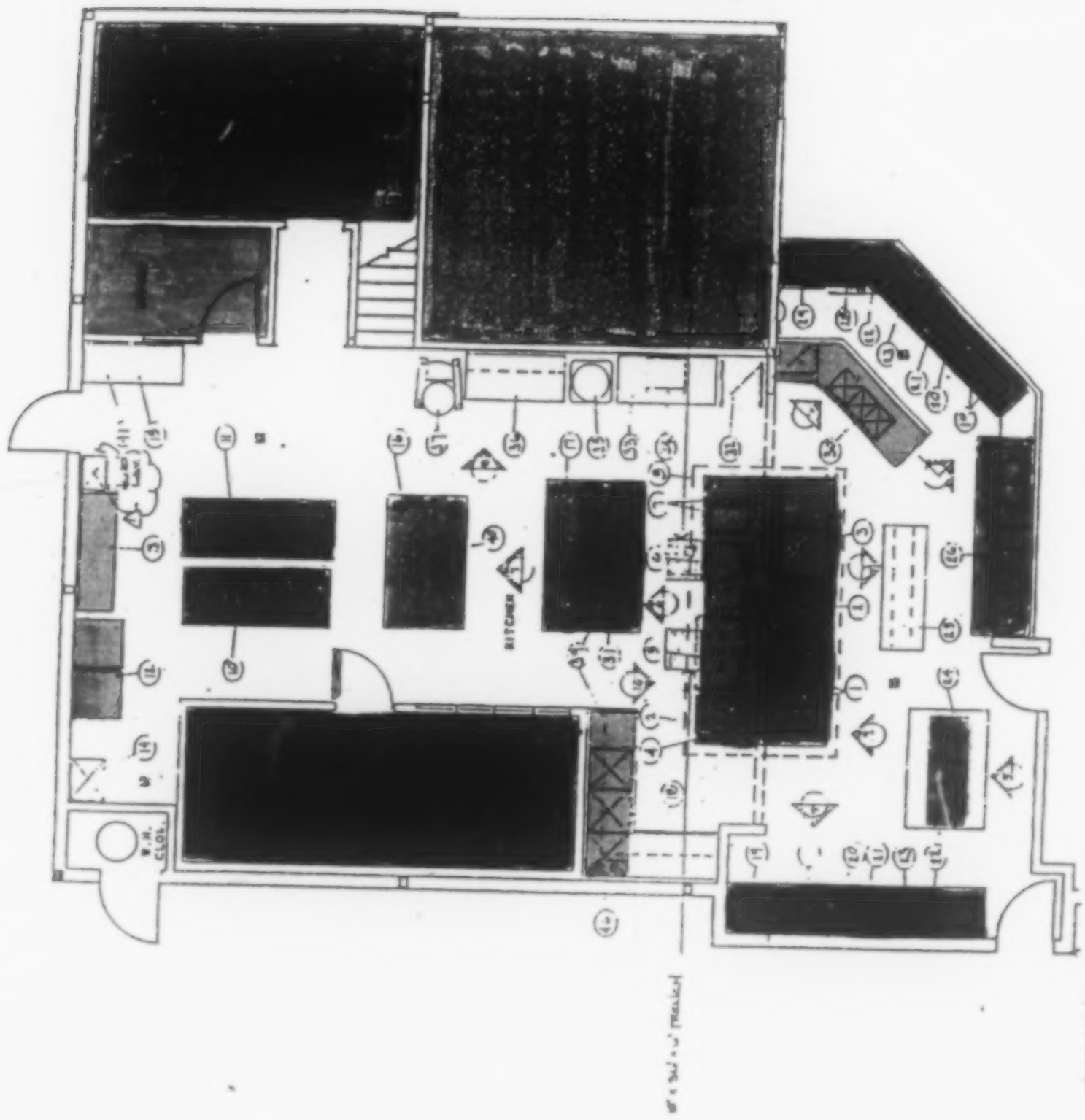
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PERCUT-Exhibit, R. L.



HEALTH DEPARTMENT REQUIREMENTS

FOOD SERVICE EQUIPMENT
FLOOR PLAN
SCALE 1/4" = 1'-0"

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PENGAD-Beynon, R. L.

OVERSIZE FOLDOUT(S) FOUND HERE IN
THE PRINTED EDITION OF THIS VOLUME
ARE FOUND FOLLOWING THE LAST PAGE
OF TEXT IN THIS MICROFICHE EDITION.

SEE FOLDOUT NO 1-2

Very Verdict

SPECIAL VERDICT SHEET

Jury Returned

4:18

1. Does Taco Cabana have a trade dress?

~~_____~~ YES _____ NO

If you answer question number 1 "YES", answer question number 2. If you answer question number 1 "NO", skip to question number 8.

2. Is Taco Cabana's trade dress, taken as a whole, non-functional?

~~_____~~ YES _____ NO

If you answer question number 2 "YES", answer question number 3. If you answered question number 2 no, skip to question number 8.

3. Is Taco Cabana's trade dress inherently distinctive?

~~_____~~ YES _____ NO

4. Has Taco Cabana's trade dress acquired a secondary meaning in the Texas market?

_____ YES

_____ NO

If you answer either question numbers 3 or 4 "YES", answer question number 5. If you answered question number 3 and question number 4 "NO", skip to question number 8.

5. Is there a likelihood that customers might associate or confuse a Taco Cabana restaurant with a Two Pesos restaurant?

_____ YES

_____ NO

- If you answer question number 5 "YES" answer question number 6. If you answer question number 5 "NO", skip to question number 8.

6. Has Taco Cabana exercised adequate supervision and control over TaCasita to make sure the quality of its goods or services are not inferior to those of Taco Cabana?

_____ YES

_____ NO

If you answer question number 6 "YES", answer question number 7. If you answer question number 6 "NO", skip question number 7 and answer question number 8.

7. Was Taco Cabana damaged as a result of Two Pesos' infringement of Taco Cabana's trade dress?

X YES _____ NO

8. Are Taco Cabana's architectural plans a trade secret?

X YES _____ NO

9. Is Taco Cabana's kitchen equipment layout and design a trade secret?

X YES _____ NO

10. Are Taco Cabana's kitchen and restaurant operating procedures a trade secret?

_____ YES X _____ NO

If you answer questions number 8 or 9 or 10 'YES', go on to question number 11. If you answer all of questions 8, 9 and 10 "NO", skip to the instruction below for question number 15.

11. Did Two Pesos breach a confidential relationship or discover Taco Cabana's architectural plans, or kitchen equipment layout and design, or kitchen and restaurant operating procedures improperly?

~~_____~~ YES _____ NO

12. Did Two Pesos use Taco Cabana's architectural plans, or kitchen equipment layout and design, or kitchen and restaurant operating procedures?

~~_____~~ YES _____ NO

If you answer question number 12 "YES", answer question number 13. If you answer question number 12 "NO", skip to the instruction below for question number 15.

13. Was Taco Cabana damaged as a result of Two Pesos' use of Taco Cabana's architectural plans, or kitchen equipment layout and design, or kitchen and restaurant operating procedures?

X YES _____ NO _____

If you answer question number 13 "YES", answer question number 14. If you answer question number 13 "NO", skip question number 14 and go to the instruction below for question number 15.

14. What is the value to Taco Cabana in money, if paid in cash, of the trade secret or secrets misappropriated by Two Pesos?

\$ 150,000

If you answered question number 7 "YES", answer question number 15. If you answered question number 7 "NO", do not answer question number 15 and have the foreperson sign and date the special Verdict Sheet.

15. What amount of money, if paid now in cash, will reasonably compensate Taco Cabana for the infringement of its trade dress.

A. Lost Profits	\$ <u>306,000</u>	306,000
B. Lost Income	\$ <u>628,300</u>	628,300
C. Loss of Goodwill	\$ <u>0</u>	

DATE

FOREPERSON

a) 1.7mm X Stores X
 6% margin - G.A. of ^{204,000}~~203,846~~ =
\$306,000
 lost profits

b) lost income -
 Crapang 26 X \$10,000 = 260,000
 franchises 3 X 5,000 15,000

\$275,000
 306,000
 150,000

\$731,000
~~353,000~~
~~\$1,084,000~~

\$50,000

- 1) Plans X
 - 2) site ass. X
 - 3) name X
 - 4) Trade dress ~~mark~~
 - 5) op. manual X
 - 6) corp. structure X
 - 7) goodwill X
 - 8) proven concept
 - 9) advertising
-

at least profits 306,000

at least income

275,000
353,300
\$1 628,300

628,300

934,300

150,000

\$1,084,300

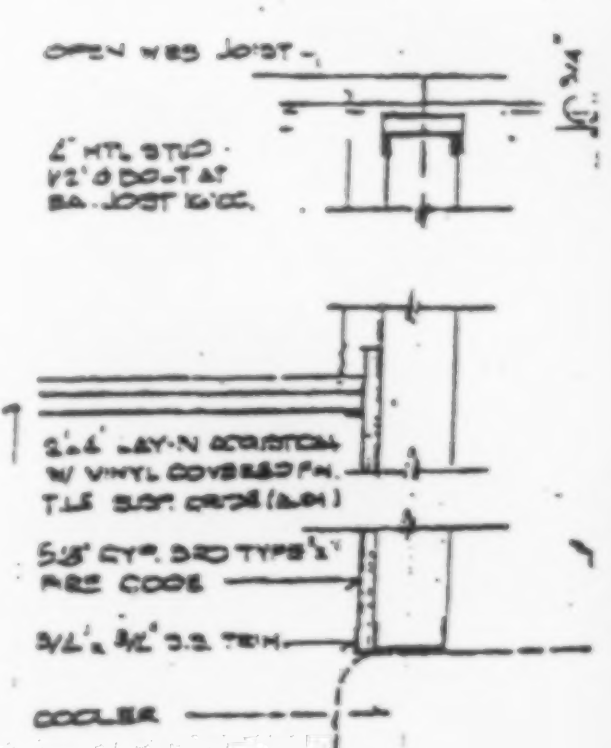
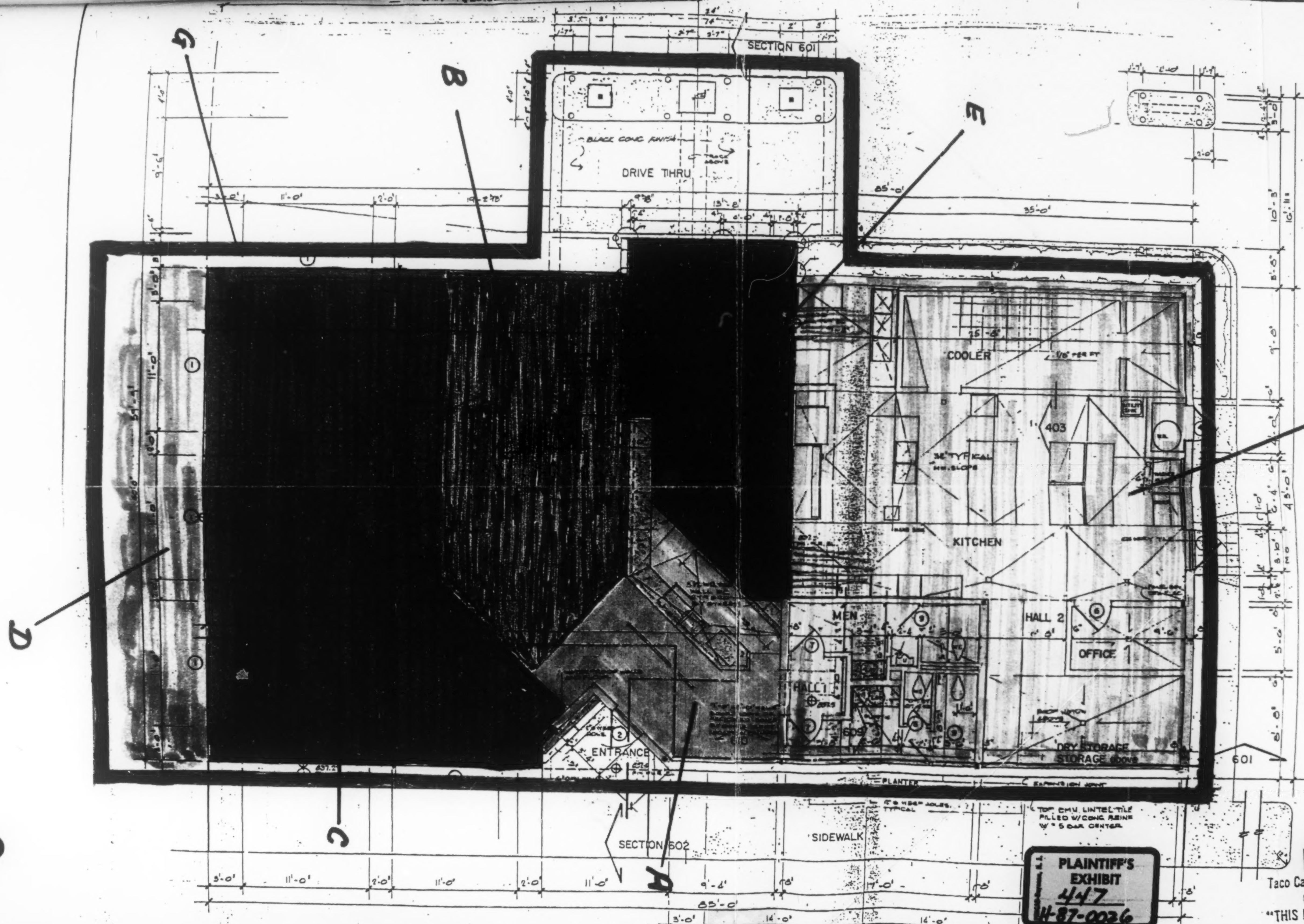
from prev. pg

$$1.7 \times 1\% \times 26 = 442,000$$

$$1.7 \times \frac{1}{2}\% \times 3 = \frac{25,500}{467,500}$$

$$G\&A - 114,200$$

$$\underline{\$353,300}$$



403 WALL above COOLER
SCALE N.T.S.

PLAINTIFF'S
EXHIBIT
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H-87-0026

Taco Cabana International, Inc. v. Two Pesos,
C.A. No. H-87-0026 (S.D. Tex.)
**THIS DOCUMENT IS SUBJECT TO COURT ORI

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PLAINTIFF'S
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HANDICAP

RE: FB

KITCHEN

OFFICE OR STORAGE

WOMEN'S

JANITOR

DRIVE-THRU

COUNT

TERRAZZO
FLAT PLASTER
PAINTED ALUMINUM

ENTRY MAT
RE: FB

TOP 6 IN
RE: FB

C

A

E

B

G

D

2 1/2

2

6

5

7

1

DOLLARDS
RE: FB

2 1/2

4 1/2

5 1/2

5 1/2

4'-0"

10'-0"

10'

10'-4"

2'

10'-0"

2'

10'-4"

8'-6"

5'-6"

5'-6"

F

E

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C

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No. 91-971

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

TWO PESOS, INC.,
Petitioner,
v.
TACO CABANA INTERNATIONAL, INC., *et al.*,
Respondents.

On Writ of Certiorari to the United States
Court of Appeals for the Fifth Circuit

PETITIONER'S BRIEF ON THE MERITS

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PETITION FOR CERTIORARI FILED OCTOBER 18, 1991
CERTIORARI GRANTED JANUARY 27, 1992

QUESTION PRESENTED FOR REVIEW

Does the Mexican style appearance of a Mexican food restaurant chain constitute protectable intellectual property equivalent to a federally registered trademark, even where the restaurants in the chain did not, and cannot show that their Mexican "look" has secondary meaning in the eyes of their customers, so that members of the public clearly associate the appearance of those restaurants with a single commercial source of the food and services sold in conjunction with that appearance?

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OPINIONS BELOW

The unreported, appealable final order of the District Court in this case held, in present material regards, (a) that Taco Cabana's trade dress was a protectable mark that was infringed by Two Pesos, (b) that the damages found by the Jury for such infringement were to be doubled to \$1,868,600, and (c) that injunctive relief was granted, requiring Two Pesos to materially change its trade dress and, further, to post a sign on both the interior and exterior of each Two Pesos restaurant which, in initial and significant regard, reads "TACO CABANA originated a restaurant *concept* which Two Pesos was found to have unfairly copied . . ." (JA I 105-108; emphasis added).¹

The Fifth Circuit Court of Appeals' opinion — which affirmed the District Court's judgment and held that Taco Cabana's trade dress was inherently distinctive and, although it consisted of many functional elements, was protectable nonetheless as a registered mark — is reported at 932 F.2d 1113 (5th Cir. 1991) and, further, may be found, but without corresponding page numbers, as Appendix A to the Petition for a Writ of Certiorari and at JA I 1-37.

JURISDICTION

Two Pesos' Petition for Rehearing and Suggestion for Rehearing en Banc to the Fifth Circuit Court of Appeals was denied on July 22, 1991, and Two Pesos' Petition for a Writ of Certiorari was filed with the Court on October 18, 1991. The Court's jurisdiction

¹ "JA" references are to the Joint Appendix, Volumes I and II, followed by the page numbers; "T" references are to the trial transcript, with the month and day indicated.

to review the judgment of the Fifth Circuit Court of Appeals by Writ of Certiorari is founded on 28 U.S.C. § 1254(1).

STATUTORY PROVISIONS INVOLVED

This case involves the protectability of a restaurant chain's trade dress under Section 43(a) of the Trademark Act of 1946, as amended, 15 U.S.C. § 1125(a) and related sections of the Act (the "Lanham Act").

STATEMENT OF THE CASE

A. Two Pesos' Entry Into The Marketplace.

Taco Cabana and Two Pesos are competing chains of upscale fast food Mexican restaurants selling alcoholic beverages. The original owners and founders of Taco Cabana are Felix and Michael Stehling. Two Pesos' founder is Marno McDermott, formerly a major shareholder and director of Fuddruckers and also of Chi Chi's, a Mexican restaurant chain.

In September 1978, Taco Cabana opened its first restaurant in San Antonio (JA II 5). From then until early 1986, Taco Cabana opened only six additional restaurants, all in San Antonio (JA II 4 and 5). It was clearly a local restaurant chain that planned to stay that way.

Thereafter, Two Pesos opened its first restaurant in Houston in December 1985 (JA II 3). At the time, Taco Cabana had no restaurants at all outside of San Antonio (JA II 3, 4, 5 and 6). Two Pesos rapidly expanded, initially in Houston, then in Dallas/Fort Worth and subsequently in various cities outside of Texas (*id.*).

B. Taco Cabana's Response To Two Pesos' Expansion: The Emergence Of TaCasita And The Commencement Of This Litigation.

After learning about and visiting Two Pesos' first restaurant in Houston, Felix Stehling decided he wanted to pursue Two Pesos and expand Taco Cabana outside of San Antonio and indeed Texas. However, he was unable to convince his brother, Michael Stehling, and other family members to do so. Six days before this action was filed, the Stehling brothers entered into a series of agreements to divide up the Taco Cabana restaurants and go their separate ways (T 9/28, 108-109). Among the agreements was a trade dress agreement (JA I 227-230).

The Taco Cabana restaurants in San Antonio were divided between the Felix Stehling group and the Michael Stehling group. Those belonging to the Michael Stehling group were renamed Ta-Casita restaurants. The Felix Stehling group quickly expanded Taco Cabana by following Two Pesos into the cities where Two Pesos was already doing business. Between 1987 and 1989, Taco Cabana opened two restaurants in El Paso, four in Dallas/Fort Worth, and three more in Houston (JA II 3, 4, 5 and 6). Taco Cabana's expansion outside of San Antonio occurred only after it filed the present action, alleging trade dress infringement under Section 43 of the Lanham Act, and just before Two Pesos went public. Two Pesos counterclaimed, alleging Taco Cabana was attempting to impair Two Pesos' ability to compete (JA I 50-63).

SUMMARY OF THE ARGUMENT

Taco Cabana's overall trade dress of a Mexican decor and a combination of admittedly functional features, cannot rise to the level of a protectable trade dress, subject to exclusive appropriation by a single commercial source in the manner of a federally

registered trademark, (i) because the Jury found it had no secondary meaning, (ii) because the trade dress is simultaneously being used by two separate and distinct Mexican restaurant chains — Taco Cabana and TaCasita — so that it does not identify a single commercial source, and (iii) because the trade dress itself contains too many common and ordinary visual aspects, which relate to functional, descriptive and generic features, in order for the trade dress to have secondary meaning or be inherently distinctive, as Taco Cabana contends and the courts below found.

Taco Cabana has sought and effectively has obtained trademark protection for what was over and over again identified at trial as its restaurant “concept,” rather than, more narrowly, its trade dress, and it has done so for the purpose of hindering and injuring the legitimate competition afforded by Two Pesos in markets Taco Cabana entered only after Two Pesos.

Concept copying is lawful. If Taco Cabana’s “trade dress concept” is held to be inherently distinctive and its functional features, subject to exclusive appropriation and use, as the Fifth Circuit concluded, then there is little impediment left to prevent claims of exclusivity and subsequent monopolization of myriad other commercial business concepts, not only in the restaurant industry, but elsewhere.

Moreover, such monopolization, with its attending impairment of competition, would be left to proceed on an *ad hoc* basis, from one litigation to the next, without the regulatory influence afforded by the administrative and screening activities of the United States Patent and Trademark Office. No Principal or Supplemental Register or other system of registration in that Office or elsewhere is available to afford notice to prospective competitors on

what “trade dress concepts” are and are not still available for exclusive appropriation and use.

ARGUMENT

I. The Lanham Act Should Not Be Used To Protect Commercial Business Concepts And Thereby Hinder Legitimate Competition.

This case was tried as a restaurant “concept” case, rather than strictly as a trade dress case. Norman Brinker, one of America’s premier restaurateurs, framed the inquiry in the trial court when he was asked by Taco Cabana’s counsel “. . . what makes for a successful restaurant concept?” Brinker said:

. . . You look around at the restaurants you go to. Some you enjoy. You can’t quite put your finger on it, but you know some things. You know that it will be consistent. You know you’ll have good price value. You know the people will be friendly. You know the food will be good. You know the restaurant and facility will be clean. Those things you know.

But those restaurants that are really successful, it has something else about it. It’s a place where you feel comfortable. It’s a place I like. It’s a place I enjoy. And when I leave, for whatever reasons, my total experience is well worth the amount of money I’ve paid for that experience.

(JA I 110-111).

When he was asked how that related to trade dress, Mr. Brinker testified:

Well, trade dress is the total concept or precept that you experience. It’s the method of service, the ambience. It’s the

way the employees look. It's how the food is delivered. It's how the food is prepared. It's the palatalizing of the food. And certainly the location.

(*Ibid.*).

This is a far cry from the definition of trade dress as a visual appearance that was set out by the court in *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983):

"Trade dress" involves the total [visual] image of a product and may include features such as size, shape, color or color combinations, texture, [and] graphics . . . 1 J.T. McCarthy, [TRADEMARKS & UNFAIR COMPETITION] § 8.1, at 230-31 [(1973)].

See also *Truck Equipment Service Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1218 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976).

As with Mr. Brinker, so it went with other Taco Cabana witnesses throughout the trial. The focus, almost invariably, was on the broad, general restaurant "concept," instead of on the traditional and more limited notion of trade dress. Some three plus pages of record references to trial testimony that implicitly or explicitly dealt with restaurant "concept" rather than trade dress are found at JA I 222-226. Additionally, an actual sampling of such testimony is provided at JA I 110-111, 113, 124-126, 127-128, 131-132, 135, and especially 136-137.

The matter need not be further belabored here except to point out the impact on the Jury. JA II 41 is the damages worksheets of the Jury. As page two of those worksheets shows, the Jury awarded damages based on what it believed were the wrongful misappropriation of Taco Cabana's "trade dress, . . . *proven con-*

cept . . . and advertising." (Emphasis added.) As presented to the Jury and allowed by the District Court, this was much more than an ordinary trade dress case.

If the interests of competition are not always well served by the reach of trademark law, it is surely the case that these interests would be seriously injured and hampered unduly by the protection of general business "concepts" under the Lanham Act. In the restaurant industry alone, protection for "proven concepts" would imply that, if McDonald's were the first economical, fast-food hamburger restaurant chain, then it would be able to preclude Whataburger, Burger King, and Wendy's, among others, from utilizing its "proven concept." Aside from McDonald's golden arches, all of these restaurant chains use the same concept and their trade dresses are therefore highly similar, largely because of the preponderance of common functional elements contained in the visual image of each restaurant.

For the most part, the hamburger chains rely on their trade names and an occasional logo to distinguish themselves commercially from each other.² Here, Taco Cabana wants more, much more: it wants protection for its restaurant concept of an upscale, fast-food Mexican restaurant with a drive-thru and a liquor license. Felix Stehling's reach to this end is unmistakable. At one point, when pressed on cross-examination, Mr. Stehling went so far as to testify that "the whole concept" of Taco Cabana was a trade secret (JA I 143-144).

² Apparently in recognition of the potential problem, McDonald's adopted its golden arches which typically have been rendered, in the particular instances, as conspicuously as local zoning ordinances will allow.

It is not the purpose of the Lanham Act to foster lawsuits as "competitive ploys" so that an initial user of a business concept can stop an aggressive competitor from expanding in the market place using the same concept. See *Mennen Co. v. Gillette Co.*, 565 F. Supp. 648 (S.D.N.Y. 1983), *aff'd without op.*, 742 F.2d 1437 (2d Cir. 1984). Restaurant concepts, such as the present one, are simply not protectable under the Lanham Act. See *Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129 (8th Cir. 1986) and *Häagen-Dazs, Inc. v. Frusen Glädjé Ltd.*, 493 F. Supp. 73 (S.D.N.Y. 1980). In *Häagen-Dazs*, the court said: "[i]t would be ludicrous . . . to suggest that . . . one producer and not another is permitted to take advantage of [a] marketing approach to enhance consumer reception of its product." *Id.* at 75.

Prufrock is particularly on point here. There, the plaintiff attempted to preclude the defendant from operating a "full service restaurant serving down home country cooking in a relaxed atmosphere with a full service bar." 781 F.2d at 130. As Taco Cabana does here, *Prufrock* pointed to elements such as the use of the exposed kitchens, large open dining areas, and decorative items on the walls to argue that its concept was really a protectable trade dress. Similarly, as here, the District Court in *Prufrock* permitted trade dress protection for what, in reality, was an unprotectable restaurant concept. The Eighth Circuit Court of Appeals had no difficulty finding that the District Court erred. It said:

The concept of informal country dining is merely the method *Prufrock* has chosen to market its restaurant services Regardless of whether the other listed elements of *Prufrock's* trade dress can be protected, the district court committed error by including *Prufrock's* core concept in its definition of *Prufrock's* trade dress. *Prufrock* simply cannot

preclude [defendant] from entering the "down-home country cooking" restaurant business.

Id. at 132.

Unfortunately in this case, after referring to Taco Cabana's "trade dress concept," the District Court told the Jury, ". . . [y]ou are instructed that 'trade dress' is the total *image of the business* . . ." (T 10/26, 15, 17; emphasis added). Even so, the Jury still had no problem finding that the trade dress had no secondary meaning (JA II 40).

II. The Jury's Clear And Unequivocal Finding Of No Secondary Meaning Precludes Liability In This Case.

The Jury concluded that Taco Cabana's trade dress had, after almost a decade of use, no secondary meaning at all (JA II 40). This means, in no uncertain terms, that there is no associational relationship in the mind of the public between Taco Cabana as a single commercial source and the trade dress used by Taco Cabana in conjunction with the food products and services it sells.³

The notion that, after such prolonged use without the emergence of secondary meaning, Taco Cabana's trade dress could be even legally protectable, much less inherently distinctive, is nothing short of absurd. Taco Cabana's position in this case is a legal *non sequitur* of the worst sort.

³ In order to establish liability on Taco Cabana's trade dress claim, it was necessary for Taco Cabana to prove (i) that its trade dress was inherently distinctive, without proof or a finding by the Jury that the trade dress lacked secondary meaning, or (ii) that the trade dress had secondary meaning, although it was not inherently distinctive.

In *Fuddruckers, Inc v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987), the court noted the same difficulty and went on to graciously suggest the absurdity of finding inherent distinctiveness in the absence of secondary meaning:

Fuddruckers, moreover, has not offered this court a definition of what "inherently distinctive" in the trademark sense might mean in the absence of secondary meaning. If purchasers do not, in fact, associate Fuddruckers's [sic] trade dress with a source of restaurant services, then it is difficult to see how that trade dress distinguishes Fuddruckers' service from the service of others. See *Levi Strauss & Co. [v. Blue Bell, Inc.]*, 778 F.2d [1352,] 1359 [(9th Cir. 1985) (en banc)].

826 F.2d at 843 (emphasis added).

For reasons we will explain, it should come as no surprise that the Jury found Taco Cabana's trade dress had no secondary meaning in the circumstances.

III. The Courts Below Misunderstood And Misapplied The Doctrine Of Inherent Distinctiveness.

A. Trade Dresses Are Not Usually Inherently Distinctive.

Until the Fifth Circuit's opinion in *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695 (5th Cir. 1981), cert. denied, 457 U.S. 1126 (1982), it was generally understood that trade dresses were not, by their very nature, capable of being inherently distinctive. While understanding the Fifth Circuit's impetus to innovate in *Chevron* on the facts of that particular case, one leading commentator, Professor Thomas J. McCarthy, has continued to adhere generally to the traditional view that trade dresses are not inherently distinctive. See 1 TRADEMARKS & UNFAIR COMPETITION § 15:1 at 657 and § 8:2 at 287 (2nd ed. 1984)

("McCarthy"). We submit that this is the correct view, except in the rarest of instances.

In *Chevron*, the trade dress in question, which the court held inherently distinctive, involved the use of the colors red and yellow in a specific design used in conjunction with a particular style of printing. The court said that this design, used as a unique label on Chevron's agricultural products, was sufficiently "arbitrary" to be inherently distinctive and did not, therefore, require proof of secondary meaning. 659 F.2d at 702-03.

The *Chevron* decision "brought trade dress cases into the mainstream of trademark law," McCarthy at 287, but, like some other juristic innovations, has sometimes been read too broadly and without adequate consideration of its meaning in some subsequent trade dress cases, including this one.

Historically, marks recognized to be inherently distinctive, so that proof of secondary meaning is not required, are only those which are (a) arbitrary, (b) fanciful or, somewhat less clearly, those which are (c) both arbitrary and suggestive.⁴

⁴ A fanciful mark is a word which is expressly coined for the purpose of serving solely and exclusively as a mark, but one that does not have any primary or understood meaning which must be overcome by the development of a secondary meaning. ESSO®, EXXON®, XEROX® and KLEENEX® are examples. See, e.g., *Telechron, Inc. v. Telicon Corp.*, 198 F.2d 903 (3d Cir. 1952).

An arbitrary mark, on the other hand, is one consisting of a word, symbol, picture or the like which has a commonly understood meaning, but, when used in conjunction with a particular type of goods or services, is not suggestive or descriptive of any aspect, quality or characteristic of those goods or services. The mark STORK CLUB used in connection with a night club is an example. See *Stork Restaurant v. Sahati*, 166 F.2d 348 (9th Cir. 1948).

(continued...)

All other types of marks have been understood to require proof of secondary meaning before they will be legally recognized as such. Such marks include those which are classified as (a) descriptive, (b) geographic or geographically descriptive, or which involve the use of (c) a personal name.⁵ Proof of secondary meaning is imperative for these types of marks because they have primary meanings which must be overcome in order for them to serve as

⁴ (...continued)

Finally, an arbitrary and suggestive mark is one not as strong as an arbitrary or fanciful mark, but very similar to and often very difficult to distinguish from an arbitrary mark. A classical example is the mark GREYHOUND referred to in *Greyhound Corp. v. Rothman*, 84 F. Supp. 233 (D. Md.), *aff'd*, 175 F.2d 893 (4th Cir. 1949). Used in connection with a bus line, it would seem to be an arbitrary mark; however, the word GREYHOUND arguably suggests speed, an enviable characteristic to which most bus lines aspire, and so has a suggestive aspect also.

⁵ A descriptive mark is one that identifies an aspect or characteristic of goods or services sold in conjunction with it. See *Zatarains, Inc. v. Oak Grove Smokehouse*, 698 F.2d 786 (5th Cir. 1983). The test for descriptiveness is whether the mark communicates a material characteristic, function or quality of a product or class of products to one who does not know about the products in the first instance. *Wise v. Bristol-Myers Co.*, 107 F. Supp. 800 (S.D.N.Y. 1952). A mark that is merely descriptive may not be registered, unless it has acquired secondary meaning under Sections 2(a) and (n) of the Lanham Act, 15 U.S.C. § 1052. A key test on whether a mark is descriptive, or alternatively, suggestive, is to gauge the extent to which other sellers of similar goods use the same or similar mark. See *Firestone Tire & Rubber Co. v. Goodyear Tire & Rubber Co.*, 186 U.S.P.Q. 557 (T.N.T.A.B. 1975), *aff'd*, 189 U.S.P.Q. 348 (C.C.P.A. 1976).

Marks descriptive of a geographical region or location require proof of secondary meaning because they are not sufficiently distinctive to pinpoint or distinguish the goods of one and only one seller from those of others. McCarthy, § 15:1 at 657. As the Court explained in *La Republique Francaise v. Saratoga Vichy Spring Co.*, 191 U.S. 427, 435, 24 S. Ct. 145, 146, 48 L. Ed. 247 (1903):

[G]eographical names often acquire a secondary signification indicative not only of the place of manufacture or production, but of the name of the manufacturer or producer and the excellence of the thing manufactured or produced.

See also Sections 2 and 4 of the Lanham Act, 15 U.S.C. § 1052 *et seq.*

marks — *ergo*, the need for proof of the recognized existence of a secondary meaning for such marks.

Finally, would-be marks which are generic in character may not serve as trademarks at all. *Holzappel's Compositions Co. v. Rahtjen's American Composition Co.*, 183 U.S. 1, 22 S. Ct. 6, 46 L. Ed. 49 (1901). The test for genericness was provided by Judge Learned Hand in *Bayer Co. v. United Drug Co.*, 272 F. 505, 509 (S.D.N.Y. 1921), when he wrote: "The single question, as I view it, in all these cases, is merely one of fact: What do the buyers understand by the word [or would-be mark] for whose use the parties are contending?" That is, what does the mark connote to the public?

A seller attempting to prove a mark is not generic must "show that the *primary* significance of the [would-be mark] in the minds of the consuming public is *not* the *product* but the *producer*." *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 118, 59 S. Ct. 109, 113, 83 L. Ed. 73, *reh'g denied*, 305 U.S. 674, 59 S. Ct. 246, 83 L. Ed. 437 (1938) (emphasis added). The *Kellogg* test clearly establishes, in this case, that Taco Cabana's trade dress is almost wholly generic.

B. The Meaning of Inherent Distinctiveness Needs Clarification in the Context of Trade Dress Cases.

1. The definition of inherent distinctiveness.

Whether a mark is inherently distinctive, or whether secondary meaning must be proved to secure its protectability, requires a clear notion of the meaning of inherent distinctiveness. Secondary meaning is well-enough understood: it is the developed associational relationship in the mind of the public between the mark and the single commercial source of the goods sold in con-

junction with the mark. The meaning of inherent distinctiveness is less obvious.

Professor McCarthy has defined marks that are "inherently distinctive" as:

[T]hose business symbols which are so distinctive in and of themselves that legal protection is granted immediately upon adoption and use.

Section 16:2 at 721. Unfortunately, this statement does more to identify, rather than define the idea. More is needed.

The Oxford Universal Dictionary (3d ed. rev. 1963) defines "inherent" to mean existing in something as a permanent attribute or quality. The same dictionary defines "distinctive" as the characteristic of being able to distinguish, differentiate or discriminate. Combining these meanings, the phrase "inherently distinctive," in regard to a mark, should be properly understood to mean that the mark is sufficiently arbitrary or fanciful to have existing in it, *ab initio*, from the time of its very creation, the unmistakable and undoubted capacity to be identified and recognized prospectively in the mind of the public as an identifier of a single commercial source or origin for the goods or services sold in conjunction with the mark, to the exclusion of all other sources of similar goods or services. This is a very tall order, particularly for any sort of trade dress, much less for a restaurant trade dress. If we genuinely believe that a mark does not clearly have these

capacities, at the outset of its use, then it is not inherently distinctive; if it does, then it is.⁶

If there is a question about the capacity of a mark to so inherently distinguish and identify, then secondary meaning must be proved. That is, from the experience of use, it must be shown that a public judgment has been made, on the basis of that experience, that the mark has been identified as such and has become distinctive by overcoming any primary or otherwise existent meanings or lack thereof the mark may have. Only then may it be said that the mark is recognized and may serve as one.

A fanciful or arbitrary mark does not have any relevant meaning at the outset of its use. Any meaning an arbitrary mark might have, were it used in some other context, is meaningless in the context of its actual use. It is this very aspect of an arbitrary or fanciful mark that creates the possibility for it to be inherently distinctive.

However, the mere possibility is not enough. It must further be the case that the putative mark will cause the public to recognize that it is intended to be a mark, that is, an identifier of source. If it lacks the ability to have the public recognize it as such, then it may not serve as a mark.

Mistaken judgments are possible, even in regard to marks thought, at the outset, to be inherently distinctive. First, an ar-

⁶ While secondary meaning can exist in the absence of inherent distinctiveness and inherent distinctiveness can exist without a finding of secondary meaning, inherent distinctiveness may not exist if actual secondary meaning is subsequently found lacking.

bitrary or fanciful configuration intended to be a trademark, might not ever be recognized by the public as an identifier of any sort, even after years of actual use. Secondly, the presumption of human association might have no real prospect or it might not materialize from experience as hoped for. That is, even if a putative mark is seen and is acknowledgeable by the public, there might not develop the associational relationship in the mind of the public between the putative mark and the sale of the goods or services or between the would-be mark and any single commercial source.

Marks which are inherently distinctive in fact tend to be highly arbitrary or fanciful. This is no coincidence. It is the very characteristic of arbitrariness or fancifulness, in the legal sense of those words, that precludes the intrusion of common, typical or usual aspects, in the context of use, and thereby gives rise to the prospect of inherent distinctiveness.⁷ Putative marks containing functional, descriptive, geographical or generic aspects, by their very nature, are not fanciful or meaningfully "arbitrary," as that term is understood in trademark law.⁸

Finally, if there is ever doubt, the experience over time of a putative mark's use before the public can answer the question of whether the would-be mark is in fact an identifier of a single commercial source of a product. If it is, then the public recognizes and

⁷ It is noteworthy that owners of arbitrary or fanciful marks often directly advertise and promote the associational relationship of their marks. There is no noteworthy indication of record that Taco Cabana ever did so in this case.

⁸ Unmeaningfully "arbitrary" combinations of functional, descriptive, geographical and/or generic features in a trade dress do not create the prospect for inherent distinctiveness, but only a collage of mixed messages and the mundane, which is often not even recognized as being intended as a mark.

understands the associational relationship intended, and the mark might, depending on the degree of fancifulness or correctly understood arbitrariness, be inherently distinctive, or, alternatively, have secondary meaning. If the putative mark is not so recognized and understood as an identifier, then it is neither inherently distinctive, nor does it have secondary meaning. This latter circumstance is the case for Taco Cabana's trade dress.

2. By their very nature, restaurant trade dresses are not inherently distinctive.

Almost invariably, the visual appearance of restaurants consists, in overwhelming part, of the predominate lines, shapes, colors and textures created by the tables, chairs, doors, counters, cash registers, vertical walls, windows, kitchen equipment, floor tiles, etc., commonly and usually found in restaurants. In fact, in the composite vision that is the trade dress of a restaurant, these commonplace and functional items — recognized by all in an instant — clearly predominate. Typically, an equally commonplace decor, often indicative of the type of food sold in the restaurant, is presented on the interior and sometimes exterior of a restaurant. Plants in restaurants are as predictable as rain in Seattle.

With so much that is functional, commonplace, descriptive and even generic in restaurants, it is virtually impossible to imagine a restaurant with a trade dress that is truly fanciful; that is, one that is expressly created to serve solely and exclusively as a trademark, one that is unique and distinctive, and one that does not have any descriptive or other meaning which must be overcome by the development of secondary meaning.⁹ Restaurants do not have

⁹ See n.4, *supra*. Taco Cabana's trade dress is no ESSO®, EXXON®, or XEROX®. Nothing about it is fanciful, as that word is properly understood.

trade dresses that are even remotely arbitrary, within the meaning of that word in trademark law.¹⁰ Restaurant trade dresses are probably the least amenable forms of putative marks to qualify as arbitrary or fanciful. Generally, trade dresses rarely qualify as arbitrary or fanciful.

3. Taco Cabana's trade dress is not inherently distinctive.

a. The absence of secondary meaning for Taco Cabana's trade dress precludes it from being inherently distinctive.

The District Court's Jury instruction on secondary meaning was fully adequate, if uninspired. It asked the Jury to determine if there was an association in the mind of the public between the trade dress and Taco Cabana in connection with the products or services sold by Taco Cabana and said the Jury should consider, in that regard, the length of time and the manner of use of the dress, advertising and promotion of the dress, sales volumes, any actual confusion and the survey evidence presented (JA I 92-93).¹¹

¹⁰ This is so because a restaurant trade dress typically has no commonly understood meaning, but often is, as here, simply descriptive of the type of food sold in the restaurant, e.g., the Mexican decor indicates Mexican food is sold in the restaurant. See n.4, *supra*.

¹¹ Although the Jury's instruction on inherent distinctiveness was erroneous (JA I 91-92), this instruction on secondary meaning was correct (JA I 92-93), so that the Jury's finding of no secondary meaning suffices to enable this Court to render a judgment of no liability in favor of Two Pesos on Taco Cabana's trade dress claim.

Properly guided by this instruction, the Jury correctly found that the public did not associate Taco Cabana's trade dress with Taco Cabana, as a single commercial source of the food products and services sold in conjunction with that trade dress (JA II 40). The dress had no secondary meaning, *i.e.*, meaning in the mind of the public as a mark. Moreover, on the facts of this case, this is the proper conclusion for several important, analytical reasons.

b. The fact that Taco Cabana's trade dress contains many functional elements precludes it from being inherently distinctive.

Taco Cabana's trade dress consists of too many functional features for it to be inherently distinctive. Although the Jury concluded, in order to find liability, that Taco Cabana's trade dress was primarily nonfunctional, the Court of Appeals knew better, addressed the problem, and upheld a functionality doctrine that allows protection of a large conglomeration of functional features (JA I 15-18).¹² The Fifth Circuit undoubtedly did so in recognition of the considerable trial testimony — even from Felix Stehling

¹² In regard to the many functional features of Taco Cabana's trade dress, the Court of Appeals concluded that, even in the absence of utility (and presumably, design) patents, such functional features could be combined and monopolized, if the particular combination of such features is not itself functional — whatever that might mean — and the combination is "arbitrary" (JA I 15-18). This conclusion appears to conflict with the conclusion of this Court in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 164, 109 S. Ct. 971, 984, 103 L. Ed. 2d 118 (1989), that "[w]here an item in general circulation is unprotected by patent, '[r]eproduction of a functional attribute is legitimate competitive activity,'" quoting *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 863, 102 S. Ct. 2182, 2193, 72 L. Ed. 2d 606 (1982). It is easy to imagine that a court or jury might not understand or ignore the thrust and intent of this Court's functionality rule and, by adopting the Fifth Circuit's rule instead, grant monopoly rights in perpetuity where only a utility or design patent might otherwise grant exclusive use, and then, only for a limited time.

himself — that the only things in a Taco Cabana restaurant which are not functional are the “decor and plants.” See JA I 129, 141 and 206-207.

The recognition and existence of so many functional elements in Taco Cabana’s trade dress, even if “arbitrarily” combined,¹³ precludes that dress from ever being truly fanciful, arbitrary, or even arbitrary and suggestive. The very notion of functionality implies commonality of use and, more significantly here, substantial commonality of visual appearance, which is preclusive of arbitrariness and fancifulness and, therefore, preclusive of inherent distinctiveness.

This conclusion is further reinforced where the nonfunctional aspects of the trade dress are conceded to be only the “decor and plants” and, further, the decor is typically that of a Mexican restaurant.

c. Taco Cabana’s trade dress is also descriptive and generic and may not therefore be inherently distinctive.

Mexican restaurant decor is not only common, but it is generic and descriptive, because it calls to mind, in a restaurant context, that the food served is Mexican in flavor, origin and appearance. Chinese food is typically not sold in restaurants with Mexican

¹³ See Opinion at JA I 15-16. The Fifth Circuit’s use of the word “arbitrary” here is in the *lay sense* and not as that word is used in trademark law. See n.4, *supra*. Moreover, functional restaurant features, and even combinations of them, should be available for all to use, except where one or more of them is subject to a proper design or utility patent, issued only after a full-blown patent examination.

decor and those with Chinese decor do not usually serve enchiladas or tacos.

As used by restaurants, Mexican decor connotes the sale of Mexican food and, of course, Mexico, as the origin of the food. Paraphrasing the language of this Court in *Kellogg*, the primary significance of Mexican decor in the mind of the consuming public is that the restaurant sells Mexican food and not that the commercial source is somehow distinguished. From this analysis, it may be understood that the decorative, nonfunctional aspects of Taco Cabana’s trade dress really and truly contain substantial descriptive and generic aspects. This is but another reason the trade dress may not be considered arbitrary or fanciful and, therefore, inherently distinctive.

The decorative aspects of Taco Cabana’s trade dress, including the plants, are descriptive not only of the food sold by the Taco Cabana restaurants, but also of the geographical location and ethnic origin of those foods items. Trademarks which are descriptive of the product or descriptive of the geographical location of the origin of the product or which are generic are not inherently distinctive, but must have secondary meaning before they may be protected as such under Section 2 of the Lanham Act, 15 U.S.C. § 1052:

No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it—

(a) Consists of or comprises . . . deceptive . . . matter

• • •

(e) Consists of a mark which ... (2) when applied to the goods of the applicant is primarily geographically descriptive

(f) Except as expressly included in paragraphs (a)-(d) ... nothing ... shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant's goods in commerce.

The underlying notion here is the same as that regarding multiple functional features: geographically descriptive marks and features with generic aspects are not sufficiently specific or distinctive to pinpoint one and only one seller and identify and distinguish his goods from those of others, at least in the absence of the secondary meaning developed over time.

Taco Cabana's trade dress does not have inherent in it the prospect of being sufficiently arbitrary or fanciful to be inherently distinctive. Worse, for Taco Cabana in this case, the visual impression created by that trade dress, after a decade of use, is not sufficiently distinctive — much less inherently so — to have the public even identify it as a trademark.

d. The lack of a single commercial source for the Taco Cabana trade dress precludes it from having secondary meaning and from being inherently distinctive.

In order for a trademark to have secondary meaning or be inherently distinctive, it must be associated in consumers' minds with a single commercial source. *Sno-Wizard Mfg., Inc. v. Eisemann Products Co.*, 791 F.2d 423, 427 (5th Cir. 1986); and *Zatarains, Inc. v. Oak Grove Smokehouse*, 698 F.2d 786, 797 (5th Cir. 1983). The fact is that both the Taco Cabana restaurants and

the TaCasita restaurants use the very same trade dress (see JA II 1 and 2), but actually are separate and distinct commercial sources thereby preventing the trade dress from being a mark.

In an effort to avoid this predictable result, the Michael and Felix Stehling factions entered into a Trade Dress Agreement (JA I 227). However, that Agreement is fatally flawed. In its material part, it reads:

1. **LICENSE.** The M Group and the F Group each hereby grant a limited license to the other to use the trade dress the other is currently using to the limited extent permitted herein¹⁴

This licensing provision is a sham. It licenses to each what each already has. It clearly recognizes that, as a licensor, both the M Group and the F Group each have ownership rights, *ab initio*, to the trade dress as both a licensor and a prior user. All this licensing provision does is evidence the agreement of the M Group and the F Group that the trade dress may be used by both the Taco Cabana and the TaCasita restaurants simultaneously. The provision does not solve the problem; it creates it because Taco Cabana and TaCasita are wholly separate commercial sources, doing business under different trade names, but using the same trade dress.

This arrangement is fatal to the dress as a putative mark. As the Fifth Circuit explained in *Zatarains*, a mark is protectable only

¹⁴ The M Group is the Michael Stehling faction and the F Group is the Felix Stehling faction. This Agreement has been referred to in this litigation variously as the Trade Dress Agreement and the cross-licensing agreement. In fact it is a joint-use agreement, and little more.

when it identifies, in the minds of consumers, a product or service coming from a single commercial source. 698 F.2d at 795. See also McCarthy § 15:1.

When two or more manufacturers of a product or service use the same mark for the same types of goods, that mark can no longer indicate a single commercial source or origin. See McCarthy § 16:14.A n.18 at 749.¹⁵ Similarly, the Ninth Circuit Court of Appeals has also held that multiple commercial sources or origins preclude protectability for a trademark. *Levi Strauss & Co. v. Blue Bell, Inc.*, 778 F.2d 1352, 1358 (9th Cir. 1985), and *Lindy Pen Co. v. Bic Pen Corp.*, 725 F.2d 1240, 1244 (9th Cir. 1984), *cert. denied*, 469 U.S. 1188 (1985). See also *Carl Zeiss Stiftung v. VEB Carl Zeiss Jena*, 433 F.2d 686 (2d Cir. 1970), *cert. denied*, 403 U.S. 905 (1971). In particular, for the present case, see the photographs that are JA II 1 and 2.

Recognizing that the licensing provision was legally defective, the Stehling brothers added the following further provision in the Trade Dress Agreement:

... The F Group and the M Group each agree to use reasonable efforts to *modify their trade dress for their respective future restaurants* sufficiently to distinguish the restaurants of each Group from the restaurants of the other Group in the public's mind.

(JA I 228; emphasis added).

¹⁵ It is noteworthy that Professor McCarthy, the author of this treatise, was one of Taco Cabana's expert witnesses. He testified briefly for Taco Cabana, but was excused by the District Court before Two Pesos' counsel had an opportunity to cross-examine him (T 10/17, 159-163).

However, the hoped-for ameliorative effects of this provision were not obtained for several reasons. First, the provision is tantamount to a declaration that the trade dress is abandoned, at least as to future restaurants. Secondly, neither Taco Cabana, nor TaCasita, ever complied with this provision (T 10/3, 39-43; T 9/29, 120-124). Thirdly, assuming compliance, this provision does nothing to eliminate the problem of the same trade dress being used by the nine original Taco Cabana restaurants: five, as continuing Taco Cabana restaurants, and four, as now renamed TaCasita restaurants (JA I 227-230).

The inclusion in this Agreement of this trade dress modification provision only exacerbates the problem. It makes it clear that each of the Stehling brothers understood the legal difficulties involved, but neither was willing to give up his ownership of the trade dress rights and become a licensee of the other. The Fifth Circuit was conspicuously silent on this point (JA I 20-23).¹⁶

Taco Cabana's trade dress is not an identifier of a single commercial source or origin, but serves instead to create the very type of confusion the Lanham Act is intended to avoid. In these cir-

¹⁶ The lack of a single commercial source for the trade dress created predictable difficulties in the common use of the dress by Taco Cabana and TaCasita. The testimony of Virginia Crowe, a sister of Michael and Felix Stehling and a manager of a Houston TaCasita restaurant, was emphatic on three points: first, TaCasita and Taco Cabana kept track of each other in the marketplace as competitors (T 10/5, 104-113, 115-121). Second, neither had any right to or did control the food quality of the other (*ibid.*). And third, Mrs. Crowe confirmed the problems arising from attempting to use the same trade dress as an identifier of two separate commercial sources: the Taco Cabana and TaCasita restaurants "... have the identical trade dress. We look the same. Many people confuse us. Many people come into our store thinking we're Taco Cabana. And I think it happens vice-versa." (JA I 157; emphasis added; see also JA II 1 and 2 on the identity of the trade dresses of Taco Cabana and TaCasita).

cumstances, the Taco Cabana trade dress cannot be a protectable mark.

**IV. If Taco Cabana's Trade Dress Were Held To Be
Protectable, Little Impediment Would Remain To Prevent
The Monopolization Of Numerous General Business
Concepts.**

The analytical limitations on the protectability of a commercially decorative trade dress should include: (1) a correct and concise definition of the trade dress, (2) preclusion of protection for functional features or any combination of such features, and (3) the requirement that the trade dress be recognized by the public as a mark; that is, that it have secondary meaning. In this case, each of these analytical requirements was seriously compromised in the ways that have been described. The result was to afford trademark protection where it should not exist and distort the law in the process.

There is little doubt in this case that Two Pesos did in fact copy Taco Cabana's restaurant concept of an upscale fast-food, Mexican restaurant with Mexican decor that also sells alcoholic beverages and has a drive-thru (see JA II 7 and 12¹⁷), just as the Whataburger and Burger King chains copied the McDonald's fast-food hamburger restaurant concept, to include the drive-thru

¹⁷ Note that these photographs are of models prepared by Taco Cabana for trial, rather than shots of actual Two Pesos and Taco Cabana restaurants.

windows.¹⁸ Concept copying is clearly permissible, even — and perhaps most particularly — when the concept is a relatively new one, at least in the United States.¹⁹ *Prufrock Ltd. v. Lasater*, 781 F.2d 129 (8th Cir. 1986).

If the narrow legal definition of trade dress is expanded, as it was in this case, to include general business concepts, and if functional, generic and descriptive features may be a substantial or a predominant part of that concept and, finally, if secondary meaning or a proper notion of inherent distinctiveness is not required by the law, then there is little impediment of any significance preventing the exclusive appropriation and monopolization of myriad commercial concepts, including decors, by businesses and others. This should not be permitted, as a matter of law.

Such monopolization of commercial concepts would proceed wholly outside of the administrative scope and reach of the United States Patent and Trademark Office ("PTO"), one of whose functions it is to review and approve or reject applications which determine what trademarks and patents are to be recognized and made a part of the public record. *See Bonito Boats*, 489

¹⁸ In fact, Two Pesos did so only after a careful review of the District Court's decision in *Fuddrucker's, Inc. v. Doc's B. R. Others, Inc.*, 623 F. Supp. 21, 22 (D. Ariz. 1985) (which was later reversed at 826 F.2d 837 (9th Cir. 1987)), in which the court opined that the effort of the Fuddrucker's restaurant chain to get protection for its trade dress was nothing more than a "competitive ploy." (Emphasis added.) The District Court was the latest word and the current thinking at the time (T 10/24, 16-22).

¹⁹ Cabana-styled seafood and Mexican restaurants proliferate along the western coast of Mexico and range from small huts with canvas shades over a few tables and chairs on a beach, to swank restaurant cabanas back from the beaches and up on the sides of hills along the Pacific shoreline.

U.S. at 151. Although this function is, in minor part, shared in an oblique way with the federal courts, it should not be wholly beyond the purview of the PTO in any substantial regard, as it would be here.

Finally, no Principal or Supplemental Register, like those kept by the PTO, is or would be available to afford notice to prospective businesses about what trade dresses they may and may not use as possible marks. Reported and, more seriously, unreported cases in substantial number would create the serious prospect of unintentional or unwitting infringement, with dire consequences possible, as here. Trade dress law would be left to assume an *ad hoc*, separate and unduly expansive life of its own, with predictable attending consequences: like some great iceberg, with its mass below the surface, unseen and adrift on the seas of commerce.

CONCLUSION

Taco Cabana's putative trade dress, after much use, has no secondary meaning. Additionally, it is descriptive of the food items sold, is descriptive of the geographical origin of those food items, and consists predominantly of generic and admittedly functional features. As a matter of law, such a trade dress may not be inherently distinctive, as that term is understood in trademark law. And under no circumstances should it be allowed to be used to bludgeon competition and move the competitive struggle from the marketplace into the courts, as has occurred here.

Two Pesos respectfully requests that the Court reverse in relevant part and render judgment in this action in favor of Two Pesos on Taco Cabana's trademark claim.

RESPECTFULLY SUBMITTED.

March 12, 1992.

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MAR 17 1992

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⑦
No. 91-971

IN THE
Supreme Court of the United States
OCTOBER TERM, 1991

TWO PESOS, INC.,
Petitioner,
v.

TACO CABANA INTERNATIONAL, INC.,
and TACO CABANA, INC.,
Respondents.

On Writ of Certiorari to the
United States Court of Appeals
for the Fifth Circuit

**MOTION OF RESPONDENTS TO DISMISS THE WRIT
AS IMPROVIDENTLY GRANTED**

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IN THE
Supreme Court of the United States

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TWO PESOS, INC.,
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TACO CABANA INTERNATIONAL, INC.,
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Respondents.

**On Writ of Certiorari to the
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**MOTION OF RESPONDENTS TO DISMISS THE WRIT
AS IMPROVIDENTLY GRANTED**

Respondents hereby request that the Court dismiss the petition for a writ of certiorari as improvidently granted. The basis for this motion is a ground arising after this Court's grant of the petition, limited to Question 1, on January 17, 1992. *See, e.g., Montgomery v. Century Laminating, Ltd.*, 444 U.S. 987 (1979); *New York State Parole Board v. Coralluzzo*, 435 U.S. 912 (1978); R. Stern, E. Gressman, & S. Shapiro, *Supreme Court Practice*, § 6.37, at 393 (6th ed. 1986); *id.* § 16.8(b), at 647.¹

¹ Although Rule 15.4 of the Rules of this Court (formerly Rule 22.3) provides that "[n]o motion by a respondent to dismiss a petition for a writ of certiorari will be received," that provision is properly understood to indicate simply that any *pre-grant* objec-

On January 17, 1992, this Court granted certiorari to review the decision of the Fifth Circuit in *Taco Cabana International, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (1991). The Court limited the grant to Question 1 of the petition. In that question, petitioner asked the Court to decide whether the trade dress of respondents' Mexican-style restaurants was outside the protection of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), because "secondary meaning" in the Texas market was not shown, even though the jury found the trade dress to be "inherently distinctive." Pet. i.²

tions to the granting of a petition should be made in the brief in opposition, rather than by motion to dismiss. (Rule 15 as a whole is concerned with briefs in opposition, reply briefs, and supplemental briefs prior to the granting of a petition; and the second sentence of Rule 15.4, immediately following the above-quoted sentence, specifically makes the point that "[o]bjections to the jurisdiction of the Court to grant a writ of certiorari may be included in the brief in opposition.") Rule 15.4 thus should not be read to preclude a post-grant motion to dismiss on newly available grounds: otherwise, a respondent would be precluded from bringing to the Court's attention intervening developments, such as new legislation or elimination of a lower-court conflict, that might render the case moot or otherwise appropriate for dismissal of the writ.

Thus, the leading treatise on Supreme Court practice states that "after the petition for certiorari has been granted or the Court has ruled upon the jurisdictional statement in an appeal, a motion to dismiss may be received if not based upon grounds already advanced." R. Stern, E. Grossman, & S. Shapiro, *supra*, at 647. See also *id.* at 393 ("Many years ago the rules provided that after a writ of certiorari was granted a respondent might move to dismiss the writ for reasons not already advanced in opposition to the granting of the writ. The present rules contain no such provision, but such a motion may still be available. In any event, it would be justifiable only when there are new or newly discovered circumstances such as those which cause the Court to dismiss a writ as improvidently granted (see Sec. 5.15, *supra*).").

² A trademark, service mark, or trade dress has "secondary meaning" when, through extensive enough use, it comes to be identified in consumers' minds with a particular source of a product or service, even if, prior to such use, consumers would understand the mark or dress as "merely descriptive" of features of the product or serv-

Petitioner asserted that the courts of appeals were in conflict on whether proof of secondary meaning is an indispensable requirement in trade dress cases. Pet. 8. Respondents, while noting that most of the cases cited by petitioner did not involve a finding of inherent distinctiveness (Br. in Opp. 7-15), nevertheless acknowledged the conflict on whether secondary meaning is required even where, as here, the jury finds the trade dress to be inherently distinctive. *Id.* at 15. In particular, respondents' brief in opposition stated that the general rule in the Second Circuit is that proof of secondary meaning is required even for inherently distinctive trade dress (*id.* at 15), while that rule has been expressly rejected in the

ice itself (features actually or potentially shared by competing brands of the same product or service). See Section 2(f) of the Lanham Act, 15 U.S.C. § 1052(f) ("merely descriptive" mark can be protected if it has "become distinctive"). By contrast, a mark or dress is "inherently distinctive," as the term suggests, because of its *inherent* characteristics: because, from its inception and regardless of whether consumers yet associate it with a particular source, it is sufficiently different from other marks or trade dresses as to distinguish the particular source for the product or service—that is, the source's goods or services "may be distinguished from the goods [or services] of others" by that mark or trade dress (Section 2 of the Lanham Act, 15 U.S.C. § 1052). This means that the mark or trade dress must be "arbitrary," "fanciful," or "suggestive," and not "generic" or "merely descriptive"; in addition, it cannot be "functional" (i.e., effectively part of the product or service itself). The definitions of these concepts are well-established, as embodied in Section 2 of the Lanham Act (15 U.S.C. § 1052), and are not the subject of any lower court conflict. See, e.g., *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985); 1 J. McCarthy, *Trademarks and Unfair Competition* ch. 11, §§ 15:1-15:2 (2d ed. 1984); 3 R. Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 18.01 (4th ed. 1983).

The court of appeals in this case captured the essence of the difference between the concepts when it explained that "the legal recognition of an inherently distinctive trademark or trade dress acknowledges the owner's legitimate proprietary interest in its unique and valuable informational device, regardless of whether substantial consumer association yet bestows the additional empirical protection of secondary meaning." 932 F.2d at 1120 n.7.

Fifth Circuit, see *Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 702 (1981), cert. denied, 457 U.S. 1126 (1982), as well as in at least the Seventh and Eleventh Circuits. See Br. in Opp. 9-11. In view of this Court's general criteria for granting certiorari, it would appear that this conflict over a significant legal question provided the basis for review in this case.

Now that petitioner has filed its brief on the merits, however, it is clear that petitioner simply has not joined issue on the question whether secondary meaning must be proved even for an inherently distinctive trade dress. Not only does petitioner never affirmatively make such an assertion, but petitioner's brief repeatedly assumes, and at least once explicitly concedes, that liability under Section 43(a) of the Lanham Act, even for trade dress, may rest on *either* a finding of inherent distinctiveness *or* a finding of secondary meaning. See, e.g., Pet. Br. 11, 13, 17, 27; *id.* at 9 n.13 ("In order to establish liability on Taco Cabana's trade dress claim, it was necessary for Taco Cabana to prove (i) that its trade dress was inherently distinctive, without proof or a finding by the Jury that the trade dress lacked secondary meaning, *or* (ii) that the trade dress had secondary meaning, although it was not inherently distinctive.") (emphasis added). Moreover, far from directly challenging the *Chevron* decision that articulated the Fifth Circuit side of the inter-circuit conflict on this point, petitioner now merely argues that *Chevron* has been read too broadly (Pet. Br. 11); by the same token, at no place in its entire brief does petitioner cite any of the Second Circuit decisions that are in conflict with the Fifth Circuit *Chevron* rule that secondary meaning need not be shown for an inherently distinctive trade dress.

Instead, petitioner argues only that, contrary to the jury finding, respondents do not have an inherently distinctive trade dress. Petitioner's arguments in support of that contention are that (a) the jury finding mistook a restaurant "concept" for protectable trade dress (Pet. Br.

5-9); (b) the jury finding that respondents' trade dress lacked secondary meaning "in the Texas market" as a whole (932 F.2d at 1117, 1120 n.7) precludes a finding of inherent distinctiveness of respondents' trade dress (*id.* at 9-10, 15-16, 18-19);³ (c) trade dresses are not "usually" inherently distinctive (*id.* at 10-13); (d) restaurant trade dresses are "rarely" inherently distinctive (*id.* at 17-18); and (e) the trade dress of respondents in particular is not inherently distinctive (*id.* at 19-26), because it "contains many functional elements" (*id.* at 19-20) and because it is "descriptive and generic" (*id.* at 20-21).⁴ Neither these arguments, nor the overall conclusion that respondents' trade dress is not inherently distinctive, addresses the only legal issue on which a circuit-court conflict exists, as previously alleged by petitioner and acknowledged by respondents.

Moreover, none of petitioner's present arguments is itself an appropriate candidate for certiorari review (putting aside entirely for purposes of this motion the merits of these arguments). To the extent that petitioner challenges the particular jury finding of inherent distinctiveness in this case, the issues raised are patently case-specific and factual. And to the extent that petitioner ad-

³ Petitioner's argument on this point is *not* that secondary meaning is always required: petitioner explicitly acknowledges that inherent distinctiveness would be enough if the jury had not made any finding on secondary meaning at all. Pet. Br. 9 n.3. Petitioner's contention is instead that the presence of a jury finding of *no* secondary meaning (in the State as a whole) precludes liability under Section 43(a) because, petitioner suggests, it undermines the finding of inherent distinctiveness.

⁴ Petitioner's final reason why respondents' trade dress is not inherently distinctive is that it is used not by respondents alone but also by the TaCasita restaurant chain, a spin-off of respondents' chain subject to a trade dress licensing agreement. *Id.* at 22-26. This contention, however, is plainly outside the scope of the question presented and is nowhere to be found in the petition for a writ of certiorari. It is therefore not properly before this Court.

vances supporting arguments as purported rules of law, petitioner has cited, and can cite, not a single lower court holding that supports any of them. No court has held that trade dresses are not "usually" inherently distinctive, that the trade dress of *restaurants* can never or "rarely" be inherently distinctive, or that a finding that a trade dress lacks secondary meaning throughout a State (*i.e.*, there is no present consumer association of the trade dress with a particular source in the Texas market as a whole) somehow precludes a finding that the trade dress is inherently distinctive (*i.e.*, intrinsically distinguishing and not generic, merely descriptive, or functional).⁵ Quite simply, there is no warrant for the Court to devote its resources to addressing any of petitioner's present contentions.

In sum, this case no longer presents the only legal question raised in the petition on which there was an intercircuit conflict and that presumably led the Court to grant review. In these circumstances, the Court should dismiss the writ as improvidently granted and await a different case to resolve the conflict over whether secondary meaning must be shown in order for an inherently distinctive trade dress to be protected under Section 43(a) of the Lanham Act (as amended in 1988).⁶ *See, e.g., Rudolph v. United States*, 370 U.S. 269 (1962) (dismissing petition as improvidently granted where case turned out to present only case-specific questions); *Southern Power Co. v. North Carolina Public Service Co.*, 263 U.S. 508 (1924) (same);

⁵ To the extent that petitioner suggests that the presence of functional elements in respondents' trade dress precludes its protection, petitioner is simply trying to argue the question—Question 2 of the petition—on which this Court has already decided not to grant certiorari.

⁶ We note that the Second Circuit has not, to our knowledge, expressly analyzed the impact of the 1988 revision of Section 43(a), and of the Lanham Act generally, on the legal question presented here. *See* Trademark Law Revision Act of 1988, Pub. L. No. 100-667, Title I, 102 Stat. 3935 (1988).

R. Stern, E. Gressman, & S. Shapiro, *supra*, at § 5.15, at 288-93.

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**RESPONSE OF PETITIONER TO MOTION OF
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**RESPONSE OF PETITIONER TO MOTION OF
RESPONDENTS TO DISMISS THE WRIT AS
IMPROVIDENTLY GRANTED**

I. Summary of the Argument

Respondents' Motion to Dismiss should be denied because:

1. Respondents' motion is an untoward effort to obtain an unjustified repolling of the members of this Court on the Court's grant of the Petition for a Writ of Certiorari in this case,
2. Respondents misunderstand the scope and nature of the conflicts between the Circuits which are presented by this case,

3. Respondents' motion is clearly and unequivocally precluded by the history and language of Rule 15.4 of the Rules of this Court,

4. Any ground for dismissal Respondents believe is appropriate may and should be raised, not by motion, but in Respondents' Brief on the Merits,

5. Respondents are premature and presumptuous in their conclusion of improvidence because the Court has not seen Petitioner's Brief in Reply, nor has it heard oral argument in this case,

6. By the conclusion of oral argument, Petitioner will have fully joined the issues and will have addressed, and proposed a resolution to the conflicts between the circuits presented by this case,

7. Aspects of the conflicts between the circuits are presently raised and addressed in the *amicus* briefs which have been filed in this case so that, already, the Court is not without guidance on the matter,

8. No rule of this Court requires Petitioner to posit all of its normative suggestions in its Brief on the Merits when it is known that *amicus* briefs on behalf of important economic and professional interests are to be concurrently filed in the case and Petitioner seeks to avoid conflicting positions with those interests, and

9. Jurisprudential prudence augers for allowance of Petitioner's Brief in Reply and oral argument before any

judgment is made on whether the Petition for a Writ of Certiorari should be dismissed as improvidently granted.

II. Rule 15.4 Precludes Respondents' Motion to Dismiss.

Rule 15.4 of the Rules of this Court unequivocally provides that "[n]o motion by a respondent to dismiss a petition for a writ of certiorari will be received." This Rule is stated clearly and plainly, without qualification or exception. The very language of the Rule precludes the Motion of Respondents from being received by this Court.

This interpretation of the Rule is also supported by the history of the Rules. The earlier Rules of this Court — which did provide that, after a Petition for a Writ of Certiorari was granted, a respondent could move to dismiss for reasons that could not have been advanced in respondent's opposition to the petition — were repealed and the present Rules of the Court, containing no such provision and, instead, the present preclusion, were adopted. See R. Stern, E. Gressman & S. Shapiro, Supreme Court Practice ("R. Stern") § 6.37 at 393 (6th ed. 1986) where these authors state:

A respondent may not move to dismiss a petition for certiorari. All his objections, jurisdictional and others, should be inserted in his brief in opposition. Rule 22.3. Many years ago the rules provided a respondent might move to dismiss the writ for reasons not already advanced in opposition to the

granting of the writ. The present rules contain no such provision¹

The clear implication of this history as well as the precise language of the Rule is not that grounds for improvidence may not be raised, but only that they may not be raised by motion and should instead be raised in Respondents' Brief on the Merits.

III. Respondents Misunderstand the Scope and Nature of the Conflicts Between the Circuits and Other Issues Which Are Presented By This Case.

Respondents argue that the circuit conflict is no more than a conflict between the Fifth Circuit's conclusion in *Chevron Chemical Co. v. Voluntary Purchasing Groups Inc.*, 659 F.2d 695, 702 (1981), *cert. den.*, 457 U.S. 1126 (1982), which holds that a trade dress maybe inherently distinctive, without proof of secondary meaning, and the Second Circuit in *Murphy v. Provident Mut. Life Ins. Co.*, 923 F.2d 923 (2nd Cir. 1990), *cert. den.*, ___ U.S. ___, 60 U.S.L.W. 3258 (1991) and *Stormy Clime Ltd. vs. ProGroup, Inc.* 809 F.2d 971, 974 (2nd Cir. 1987), which hold that proof of secon-

¹ The authors go on to suggest, however, that "... such a motion may still be available ..." *Ibid.* This gratuitous suggestion clearly conflicts with these authors own legal analysis and is conjectured without authority or coherent rationale. Indeed, elsewhere in their treatise, they write:

Dismissing a writ of certiorari as improvidently granted appears to be a matter exclusively within the discretion of the Court, dismissals being ordered on a *sua sponte* basis. Efforts by the respondent or other party to move the Court to dismiss the writ for this reason invariably fail. See *United States Department of State v. Washington Post Co.*, 455 U.S. 936 (1982) (denial of motion to dismiss); *Insurance Corporation of Ireland v. Compagnie Des Baucates*, 454 U.S. 1078 (1981) (denial of motion to recall writ). *Id.* § 5.15 at 293.

dary meaning is required in order for a trade dress to be inherently distinctive.

The conflict is actually broader and more complex than respondents understand it to be. The Second Circuit, in *Murphy* and *Stormy Clime*, *supra*, allows inherent distinctiveness, but only where secondary meaning is proved to exist. The Fifth Circuit in *Chevron*, *supra*, also allows inherent distinctiveness, but with or without the proven existence of secondary meaning. The Fifth Circuit in this case allows inherent distinctiveness, even where secondary meaning is proved not to exist. And the Ninth Circuit in *Fuddrucker v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987), precludes the possibility of inherent distinctiveness if secondary meaning does not exist.²

It is difficult to imagine a more troubled relationship in the circuits than that which exists between inherent distinctiveness and secondary meaning. This case is the ideal vehicle to clarify that relationship as well as the proof requirements necessary to establish inherent distinctiveness. The core thrust of Petitioner's Brief on the Merits addresses the true relationship between inherent distinctiveness and secondary meaning. Petitioner's Reply Brief will address normative proof requirements, in light of not only Respondents' Brief, but also the briefs of *amicus curiae*.

Respondents' mistakenly contend that it is Petitioner's position that liability on a trade dress claim may rest either on a finding of inherent distinctiveness or a finding of secondary meaning, citing to Pet. Br. 11, 13, 17, 27 and especially 9 n. 13. However, these are

² To posit the conflict, as Respondents do, as being solely between *Chevron*, *supra*, and the Second circuit cases, while ignoring the rulings of the Fifth Circuit in the present case and thereby implying they are consistent with *Chevron*, is too obviously an acute misstatement of the problem.

in fact the liability rules under *Chevron, supra*, and some of the other cases in circuits not mentioned. These are not the normative rules Petitioner suggests. Petitioner's Brief on the Merits makes it abundantly clear that Petitioner's position generally is that inherent distinctiveness may not exist where secondary meaning does not exist. To suggest that Petitioner argues otherwise is to acutely misread Petitioner's Brief on the Merits. See Pet. Br. 9, 10, 14, 15, 15 n.6 and 18 n.11.

Petitioner does not believe, as a normative proposition, that inherent distinctiveness can exist in the absence of secondary meaning.³ This is not to suggest, as Respondents mistakenly conclude, that Petitioner believes inherent distinctiveness could be well enough found if the Jury had not made any finding on secondary meaning at all. Here, Respondents address issues of proof with which Petitioner has not yet dealt.

Respondents are also mistaken in contending that the TaCasita-Taco Cabana multiple source problem is beyond the scope of the question presented. This is so because multiple sources using the same putative mark preclude a finding of secondary meaning, and the absence of secondary meaning, in turn, precludes inherent distinctiveness. Single sourcing is essential to the existence of both secondary meaning and inherent distinctiveness. To believe the issue is beyond the scope of the question presented is to misunderstand the substance of the question.

³ Again, Respondents misunderstand where they contend Petitioner's focus is on "... the particular jury finding of inherent distinctiveness in this case. . ." (Motion at 5). The finding of inherent distinctiveness arises because of the flawed jury instruction, but the instruction on secondary meaning, pursuant to which the jury found there was none, is serviceable. It is the determined existence of inherent distinctiveness and the found absence of secondary meaning that is Petitioner's focus.

This case presents, in a fundamental way, the core legal issue raised by the Petition which is, most succinctly put, what is the relationship between inherent distinctiveness and secondary meaning and, additionally, what are the collateral proof requirements for inherent distinctiveness implied by that relationship. This is most certainly not a case specific question, as Respondents suggest (Motion at 5).

IV. Respondents Are Premature and Presumptuous in Their Conclusion That the Writ Was Improvidently Granted.

The Court has not yet seen either Respondents' Brief on the Merits or Petitioner's Reply Brief, nor has the Court heard oral argument in this case. Respondents presume not only on the prerogatives of the Court in this quarter, as is suggested by the quoted material in footnote one above, but also on what facts, law and theories future briefing and argumentation may present.

Although it is the clear purpose of a reply brief on a petition to address the arguments first raised in the brief in opposition and not to reiterate or enlarge upon the arguments made in the petition, no such limitation obtains in regard to a reply brief on the merits, especially where important economic and professional interests have concurrently filed *amicus* briefs which require consideration before more definitive normative rules are suggested regarding proof requirements in a reply. A reply brief "...can in practice — and should in any event — be used only to answer points not adequately covered in the main brief."⁴ See R.

⁴ By this standard and contrary to Rule 15.4, Respondents are getting two bites at the apple, one in the guise of their present motion and the other, by their brief on the merits.

Stern 13.12 at 567-568; cf. R. Stern 6.38 at 393. This approach is not precluded by the Rules of this Court.

Petitioner's Brief on the Merits directly addresses the substance of the conflicts between the circuits because the heart and source of that set of conflicts, in its various manifestations across the circuit cases, is the theoretical and legal relationship between the concepts of inherent distinctiveness and secondary meaning. The better and more prudent course is for the Court to hear this matter out.

VI. Conclusion.

For the foregoing reasons, Respondents' Motion should be denied as improvidently filed.

DATED this 18th day of March, 1992.

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No. 91-971

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,
Petitioner,
v.

TACO CABANA INTERNATIONAL, INC.,
and TACO CABANA, INC.,
Respondents.

**On Writ of Certiorari to the
United States Court of Appeals
for the Fifth Circuit**

**RESPONDENTS' REPLY TO PETITIONER'S RESPONSE
TO MOTION OF RESPONDENTS TO DISMISS THE WRIT
AS IMPROVIDENTLY GRANTED**

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Petitioner has offered no persuasive response to our motion to dismiss the writ as improvidently granted, which was filed to raise the newly available ground that petitioner has abandoned any argument on the only legal question as to which this case presented a circuit conflict—namely, whether, under the pre-1989 language of Section 43(a) of the Lanham Act (the version at issue in this case, which arose prior to 1988), secondary mean-

ing had to be shown for an inherently distinctive trade dress.¹

First, petitioner does not and cannot point to any portion of its brief that argues for the Second Circuit rule, in conflict with the rule in the Fifth, Seventh, and Eleventh Circuits, that secondary meaning had to be shown even for an inherently distinctive trade dress. Instead, petitioner says that it is entitled to withhold all argument on this entire issue from its opening brief and present any arguments on the issue, after seeing the briefs of respondents and *amici*, in a reply brief and oral argument. See Response, points 5-9 of the summary of argument & part IV. But that is patently improper appellate practice; it is nothing more than a form of sandbagging that is grossly unfair to respondents. Quite simply, given petitioner's brief, the case no longer presents the straightforward legal issue whether, under the pre-1989 Section 43(a), proof of secondary meaning (present consumer source association) was required even when there was proof that the trade dress was inherently distinctive (intrinsically distinguishing, not descriptive, generic, or functional).²

Second, petitioner's argument that there is a different certworthy issue in its brief is demonstrably wrong. The

¹ As an initial matter, as we previously explained (Motion 1-2 & n.1), the motion is procedurally proper. It cannot be barred by Rule 15.4, which merely directs all *pre*-grant responses to a petition to be included in the brief in opposition; otherwise, even post-grant motions to dismiss based on mootness or intervening statutory changes would be barred. And dismissal of the writ as improvidently granted is *not* exclusively a matter for *sua sponte* action by the Court: motions by respondents asking for such relief are appropriately filed and, where meritorious, have in fact been granted. See Motion at 1 (citing *Montgomery* and *New York State Parole Board*, where Court granted respondents' motions to dismiss writs as improvidently granted).

² While petitioner suggests that it may rely on *amici* to raise the issue (Response, point 7 of summary of argument), this Court has pointed out: "we do not ordinarily address issues raised only by *amici*." *Kamen v. Kemper Financial Services, Inc.*, 111 S. Ct. 1711, 1717 n.4 (1991).

Second Circuit has never so confused the concepts of secondary meaning and inherent distinctiveness, as petitioner suggests without any citation (Response, point III), as to hold that "proof of secondary meaning is required in order for a trade dress to be inherently distinctive." The Second Circuit has simply held that the former had to be proved to establish liability under Section 43(a) (in its pre-1989 version). See *Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299, 303-04 (2d Cir. 1981), *cert. denied*, 455 U.S. 909 (1982). Similarly, the Ninth Circuit in the *Fuddruckers* case did *not*, as petitioner asserts (Response, point III), "preclude[] the possibility of inherent distinctiveness if secondary meaning does not exist." Rather, explicitly refusing to decide the relationship between secondary meaning and inherent distinctiveness, the Ninth Circuit in *Fuddruckers* simply held that, on the facts in front of it, no inherent distinctiveness had been shown. 826 F.2d at 843-44. More generally, petitioner's contention that inherent distinctiveness is somehow legally impossible in the absence of secondary meaning is unsupported, as far as we are aware, by *any* circuit-court holding on the meaning and requirements of Section 43(a) (either under the version at issue in this case or under the present language of the provision).

In short, no legal issue warranting this Court's review is now in this case. It is therefore respectfully submitted that the petition for a writ of certiorari should be dismissed as improvidently granted.

Respectfully submitted,

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BRIEF FOR RESPONDENT

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QUESTION PRESENTED

Whether Taco Cabana's trade dress was properly held protected under the pre-1989 version of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), based on the jury finding of its inherent distinctiveness.

PARTIES TO THE PROCEEDING

Pursuant to Rule 29.1 of the Rules of this Court, respondent Taco Cabana, Inc., a Delaware corporation, states that it has no parent corporation and no subsidiary corporations except wholly owned subsidiaries. (The original respondents, Taco Cabana International, Inc., and Taco Cabana, Inc., both Texas corporations, no longer exist. The former was merged into the latter, which was then merged into the present Taco Cabana, Inc., a Delaware corporation, which is therefore the legal successor to both Texas corporations.) Although respondent has no parent company, a substantial (though not a majority) ownership interest is held, in various forms of stock, by Prudential Venture Partners II, a limited partnership whose general partner is Prudential Equity Investors, Inc.

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IN THE
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OCTOBER TERM, 1991

No. 91-971

TWO PESOS, INC.,
v. *Petitioner,*
TACO CABANA, INC.,
 Respondent.

On Writ of Certiorari to the
United States Court of Appeals
for the Fifth Circuit

BRIEF FOR RESPONDENT

STATEMENT

Respondent Taco Cabana operates a chain of upscale fast-food Mexican restaurants in Texas. Petitioner, in subsequently starting a competing restaurant chain (Two Pesos), deliberately copied the carefully determined “look” of Taco Cabana’s restaurants, including their floor plan, architecture, and exterior and interior design. In a suit alleging, *inter alia*, a violation of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), the jury imposed liability on Two Pesos based on its findings, among others, that Taco Cabana’s trade dress was inherently distinctive and that Two Pesos’s copying of the trade dress created a likelihood of consumer confusion with Taco Cabana. The court of appeals affirmed, con-

cluding in particular that the jury finding of inherent distinctiveness was based on proper instructions, was amply supported by the evidence, and was legally sufficient to establish a Section 43(a) violation regardless of whether Taco Cabana's trade dress had acquired "secondary meaning" in the Texas market.

1. *Background.* Taco Cabana, founded by brothers Felix and Michael Stehling, opened its first restaurant in San Antonio in 1978. Following the normal pattern of development, it gradually expanded, opening five more restaurants in San Antonio by 1985. The restaurants had a common menu offering high-quality Mexican food in a setting that mixed elements of a fast-food and sit-down operation. 1 J.A. 11, 137.

To help define its identity to the public, Taco Cabana adopted a detailed trade dress to be used, with slight variations, by all of its restaurants. This began with the shape of the buildings themselves: two "boxes," one (the main part of the restaurant) taller than the other (the enclosed patio part of the restaurant), creating a "step-down" appearance. Whereas the main part of the restaurant has no exterior windows, the patio part of the restaurant can be opened or closed to the outside by overhead, glass garage doors on three sides. A drive-through overhang protrudes from one side of the structure. The entire structure is generally painted pink, with a top border of painted and matching neon multi-color stripes accentuating the two-box structure. The patio door openings are shaded by bright awnings that repeat the building's color scheme. The tables outside the enclosable patio are themselves shaded by large umbrellas that have the same color scheme. Large potted plants surround the patio. See 2 J.A. 7-11 (PX 3, photographs of replica of Taco Cabana restaurant), 17-21 (PX 28A-36B, photographs of Taco Cabana restaurants).

In the interior of a Taco Cabana restaurant, customers enter to face a bent counter, generally wood panelled below

the countertop, and set (like the entrance) at an oblique angle to the building walls. Customers place their orders from a large menu board behind the counter and proceed around the turn in the counter, past the cash register, to pick up their food. Structurally, the counter separates a visible, "open" kitchen from the interior dining area; and a wall, consisting mostly of glass, then separates the interior dining area from the enclosable patio, with its garage doors leading to the outside. The seating in both dining areas consists of a carefully arranged assortment of small square tables with seats, both fixed to the floor, and picnic tables with benches. The walls are festively decorated with bright colors, paintings, murals, and Mexican artifacts. See 2 J.A. 10-11 (PX 3, photographs of Taco Cabana replica), 22-25 (PX 37-43, photographs of Taco Cabana restaurants), 38 (PX 447, floor plan of Taco Cabana).

In 1984, two experienced restaurateurs, Marno McDermott (founder of the Chi-Chi's restaurant chain and former chief executive officer of the Fuddrucker's restaurant chain) and Jim Blacketer (formerly with the Chi-Chi's and Steak & Ale restaurant chains), noticed Taco Cabana's success. By early 1985, without authorization, they acquired a set of construction plans and photographs of Taco Cabana. In April 1985, they furnished those plans and photographs to their two architects and hired them to design a competing restaurant "based primarily on an existing prototype originated in San Antonio." 1 J.A. 166 (quoting PX 138).¹ The same month, Jim

¹ Plaintiffs' Exhibit 138 is a letter dated April 17, 1985, from architect Scott Ziegler (signed on his behalf by his partner Jim McDaniell) to Jim Blacketer, which is countersigned as "accepted" by Blacketer and which confirms the assignment of the architects. As to the furnishing of Taco Cabana photographs and plans to the architects, see 1 J.A. 162-65 (Ziegler, at 162: Blacketer "had come to our [Ziegler's and McDaniell's] office with some photographs and a plan of a restaurant [Taco Cabana] that he said he found very interesting") and 1 J.A. 176-80 (McDaniell: Blacketer showed

Blacketer told an owner of land in Houston, which Blacketer was interested in leasing, that he "was going to copy it [Taco Cabana] nut for nut and bolt for bolt." *Id.* at 182. In June 1985, Blacketer and one of his architects met with a prospective signmaker, gave him photographs of Taco Cabana's exterior, and "said they were copying the Taco Cabana out of San Antonio. They wanted a like location or so forth or a like building to Taco Cabana." *Id.* at 186. They explained that "[t]heir intentions were putting in five restaurants [in Houston] as fast as they could because Taco Cabana was not there at that point. They had to get a foothold in Houston before Taco Cabana came." *Id.* at 188.²

In December 1985, Two Pesos opened in Houston. The chain expanded rapidly in Houston and elsewhere, although it stayed out of San Antonio, Taco Cabana's original base. By August 1988, Two Pesos had opened 29 restaurants in Texas and other States. 1 J.A. 11, 79-82. Taco Cabana opened its first restaurant in Houston in February 1986; by the time of trial, Taco Cabana had 16 restaurants, in all of the major cities in Texas. *Id.* at 77-79.

the architects photographs at their initial meeting and, at some point, also showed them a set of Taco Cabana plans). *See also* 10/7 Tr. 147-50. (Transcript citations are given by the month and day (in 1988), followed by "Tr." and then the page numbers.)

² Two Pesos's concern about Taco Cabana's entering the Houston market, expressed prior to Two Pesos's opening of any restaurant, was a legitimate one: contrary to petitioner's suggestion (Pet. Br. 2-3), Taco Cabana did not plan to stay in San Antonio but suddenly change that plan upon visiting Two Pesos's first restaurant. In late 1984 or early 1985, Taco Cabana began considering expansion into Austin and Houston (9/28 Tr. 56-59); in mid-1985, Taco Cabana contacted Houston landowner Philip Kensinger about leasing a site in Houston (10/13 Tr. 66-67); and by early summer 1985, even Mr. McDermott had heard that Taco Cabana had leased land in Houston (10/24 Tr. 86-88). All of this occurred before Two Pesos opened any restaurant.

2. *District Court Proceedings.* a. *The Complaint.* In January 1987, after unsuccessfully seeking modifications from Two Pesos, Taco Cabana filed suit against Two Pesos in the federal district court in Houston. 1 J.A. 38. Taco Cabana's main claim was that Two Pesos had adopted a trade dress that was confusingly similar to Taco Cabana's, which was distinctive and valuable to Taco Cabana as an identifier of its quality service, thereby violating the bar in Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), on using a "false designation of origin, or any false description and representation." 1 J.A. 42-45.³ Taco Cabana sought monetary, declaratory, and injunctive relief for Two Pesos's trade dress infringement. *Id.* at 46-47. Taco Cabana also claimed that Two Pesos was liable under Texas law for misappropriating Taco Cabana's trade secrets in its architectural plans, its kitchen equipment layout and design, and its overall restaurant operating procedures. *Id.* at 45-47.

b. *The Evidence.* The evidence at trial demonstrated the distinctiveness of Taco Cabana's trade dress and Two Pesos's willful copying of it, as summarized above, as well as the likelihood of consumer confusion about whether Two Pesos was affiliated with Taco Cabana. Two Pesos's trade dress copied virtually every feature of Taco Cabana's trade dress described above, including the basic step-down architecture of the buildings, with a windowless main building and lower-roofed patio; the bright background color and striped multi-color top border (painted and neon); the striped awnings and multi-colored umbrellas; the potted plants; the patio with garage doors; the condiment bar and interior table arrangements, with picnic tables and small square tables (and chairs fixed to the

³ This case arose, and has been decided, under Section 43(a) of the Lanham Act as it read prior to its being rewritten in 1988. *See* Trademark Law Revision Act of 1988, Pub. L. No. 100-667, § 132, 102 Stat. 3946 (effective November 16, 1989). The present version is set out, along with the pre-1989 version, in an appendix to this brief.

floor), in both the interior dining area and patio; the glass wall separating the interior dining area and patio; the angled counter and oblique entry; the placement and look of the menu board; the type of interior decorations. The main difference was that, while Taco Cabana's restaurants are generally pink, Two Pesos's restaurants are generally turquoise (though at least one is tan and one is white, *see, e.g.*, 2 J.A. 27 (PX 325A-B, 326A-B); 9/27 Tr. 81).⁴

The exterior similarities may be seen in the Two Pesos replica, 2 J.A. 12-16 (PX 342, photographs) which may be compared with the Taco Cabana replica, 2 J.A. 7-11 (PX 3, photographs). They may also be seen in the photographs of various Two Pesos restaurants, 2 J.A. 26-28 (PX 323A-327B), which may be compared with the Taco Cabana photographs, 2 J.A. 17-21 (PX 28A-36B). The basic Two Pesos floor plan, 2 J.A. 39 (PX 448), likewise reveals the similarity. *Compare* 2 J.A. 38 (PX 447, Taco Cabana floor plan). The interior similarities are shown not only by the replicas and floor plans but by the photographs of Two Pesos interiors, 2 J.A. 29-35a (PX 328-341), which may be compared with the Taco Cabana photographs, 2 J.A. 22-25 (PX 37-43).

Other evidence confirmed the unmistakable implications of the foregoing exhibits. First, a number of witnesses prominent in the restaurant business testified to the striking similarity and high likelihood of consumer confusion between the two restaurants' trade dresses.⁵ Second, a

⁴ Two Pesos's menu, too, closely resembles Taco Cabana's menu, thus reinforcing the likelihood of customers' confusion. *See* 9/27 Tr. 82-83; 10/3 Tr. 52.

⁵ *E.g.*, 1 J.A. 115-23 (Brinker); 183-84 (Kensinger: Two Pesos copied Taco Cabana "nut for nut and bolt for bolt"); 190-92 (Romano, at 192: "they both look the same. They're shaped the same. They look the same. When you're inside, they feel the same. They have the same product."); 202-03 (Williams: "my impression is one of confusion. I think from my experience in restaurants and restaurant designs, I feel that the consumer can't help from being

marketing expert introduced survey evidence that showed a substantial degree of actual consumer confusion between Two Pesos and Taco Cabana. 1 J.A. 169-74. Third, several Taco Cabana witnesses testified to numerous customer statements (often complaints about Two Pesos) reflecting their belief that Two Pesos was affiliated with Taco Cabana. *E.g., id.* at 149-61. Fourth, and perhaps most significantly, at Two Pesos's request, the jury was taken to see a Taco Cabana and a Two Pesos restaurant on the last day of trial. *See* 10/25 Tr. 50-51. The jury thus based its findings on its direct view of the trade dress of each restaurant chain. *See* 1 J.A. 220.⁶

With respect to Taco Cabana's claim of misappropriation of trade secrets, Taco Cabana introduced evidence showing that Two Pesos copied its architecture and kitchen design and, more broadly, evidence showing that Two Pesos copied the entire means of operating the Taco Cabana restaurants. For example, in addition to the photographs and floor plans noted above, Taco Cabana introduced exhibits showing the almost identical kitchen layouts of the restaurants. *Compare* 2 J.A. 36 (PX 445, Taco Cabana's kitchen) with 2 J.A. 37 (PX 446, Two Pesos's kitchen). Moreover, several witnesses testified that Two Pesos had gotten a substantial head-start in its business by copying Taco Cabana's entire mode of operation (often described as the Taco Cabana "concept"). *See, e.g.*, 1 J.A. 135-37, 143-44.

c. *The Jury Findings.* The jury instructions, and special verdict sheet (2 J.A. 40), took the jury through the

confused or automatically assume they have to be one in [sic] the same thing.").

⁶ The evidence also showed that Taco Cabana's competitors other than Two Pesos used trade dresses plainly different from Taco Cabana's. *See, e.g.*, 1 J.A. 133-34 (Alfonso's), 145 (Sombrero Rosa), 147 (Pappa Taco's); 10/14 Tr. 170-71; 10/7 Tr. 93; PX 399-405 (photographs of other restaurants).

legal claims step by step. The court began by asking the jury to determine whether Taco Cabana had a trade dress, explaining that

"trade dress" is the total image of the business. Taco Cabana's trade dress, may include the shape and general appearance of the exterior of the restaurant, the identifying sign, the interior kitchen floor plan, the decor, the menu, the equipment used to serve food, the servers' uniforms and other features reflecting on the total image of the restaurant.

1 J.A. 83-84. Two Pesos argued that Taco Cabana was really seeking protection for the "magic" of its restaurants, not its trade dress (10/25 Tr. 86 (closing argument)), and that Taco Cabana did not have a uniform trade dress (*id.* at 86-88). The jury found that Taco Cabana did have such a trade dress. 2 J.A. 40 (question 1).

The court next asked the jury: "Is Taco Cabana's trade dress, taken as a whole, non-functional?" 2 J.A. 40 (question 2). The court explained that the purpose of trade dress is "to identify the restaurant with the products it serves" and that "[t]he doctrine of functionality is basically an attempt to distinguish between design features of the restaurant which serve a useful purpose in the functioning of the restaurant and those features that are merely arbitrary. The law allows the copying of functional features in the public interest of enhancing competition." 1 J.A. 84-85. Directing the jury to focus its "consideration on the total image and not the functionality of individual elements" (*id.* at 86), the court said that the trade dress as a whole was to be found non-functional if it is "not significantly related to the utilitarian function of the restaurant, but is an arbitrary embellishment primarily adopted for the purpose of identification and individuality"; and it was to be found functional if "its purpose is to facilitate the operation of the restaurant," if it "is designed to have a useful function aimed at utility," or if "Taco Cabana's trade dress taken

as a whole must be used by others in order to compete in the Mexican fast-food restaurant business." *Id.* at 85. Two Pesos argued that Taco Cabana's trade dress was "necessary to be used in the Mexican fast-food business." 10/25 Tr. 89. The jury found that Taco Cabana's trade dress was non-functional. 2 J.A. 40 (question 2).

The court then asked: "Is Taco Cabana's trade dress inherently distinctive?" 2 J.A. 40 (question 3). The court explained:

Distinctiveness is a term used to indicate that a trade dress serves as a symbol of origin. If it is shown, by a preponderance of the evidence, that Taco Cabana's trade dress distinguishes its products and services from those of other restaurants and is not descriptive and not functional, then you should find that Taco Cabana's trade dress is inherently distinctive. If it is shown that Taco Cabana's trade dress does not distinguish its products and services from those of other restaurants, then you should find that Taco Cabana's trade dress is not inherently distinctive.

1 J.A. 86. Two Pesos argued that the Taco Cabana trade dress was not inherently distinctive because its elements are too ordinary: "those simple features, the box-like structure on the outside, the functional features on the inside, cannot be symbols of origin." 10/25 Tr. 90. The jury found that Taco Cabana's trade dress was inherently distinctive. 2 J.A. 40.

The court next asked: "Has Taco Cabana's trade dress acquired a secondary meaning in the Texas market?" 2 J.A. 40 (question 4).⁷ The court explained that "[t]he prime element in a finding of a secondary meaning is a

⁷ The court put this issue to the jury as an alternative basis of liability. "If you find that Taco Cabana has a trade dress, that the trade dress taken as a whole is non-functional, and that the trade dress is inherently distinctive or has acquired a secondary meaning in the Texas market, then Taco Cabana has proven its claim that it has a protectable trade dress." 1 J.A. 87 (emphasis added).

mental association in the mind of the customers in Texas between the products or services being offered and a particular source of that product or service" (1 J.A. 86-87); thus, the issue was whether "a significant number of the customers in Texas associated the trade dress with Taco Cabana" (*id.* at 87). Two Pesos, in its argument, stressed the state-wide nature of the necessary consumer recognition and argued against any such finding based on the fact that Two Pesos opened in several Texas cities before Taco Cabana did.⁹ The jury found that Taco Cabana's trade dress had not acquired secondary meaning in the Texas market. 2 J.A. 40.

Having defined the character of Taco Cabana's interest in its trade dress, the court and jury turned to the "central inquiry in a trade dress infringement action": "whether the Defendant is passing off his goods or services as those of the Plaintiff by virtue of substantial similarity between the two, leading to confusion on the part of potential customers." 1 J.A. 88. The court instructed the jury to consider a number of factors in answering this question—*e.g.*, the similarity of the trade dresses, the two restaurants' competition for the same customers, instances of actual customer confusion, and Two Pesos's intent in adopting Taco Cabana's trade dress. *Id.* at 88-89. Two Pesos argued that "on this issue, the similarities, the best evidence is really what you [the jury] saw today at the restaurants." 10/25 Tr. 92. The jury found that there was a "likelihood that customers might associate or confuse a Taco Cabana restaurant with a Two Pesos restaurant." 2 J.A. 40 (question 5). The jury then found that Taco Cabana had suffered actual damages, in the form of lost business, and

⁹ 10/25 Tr. 91 ("Two Pesos was first in every market where Taco Cabana and Two Pesos compete. Two Pesos was first in Houston, first in Dallas, and first in El Paso. It's hard to see how Taco Cabana could have acquired secondary meaning throughout the entire state of Texas when they operated only in San Antonio for a number of years up until approximately 1985.").

awarded a total of \$934,300 on this claim. 2 J.A. 40 (questions 7 & 15).⁹

The jury also found for Taco Cabana on part of its state-law trade-secret claim. The jury found that Taco Cabana had a protected trade secret in its architectural plan and in its kitchen equipment layout and design, but that its overall operating procedures were not a trade secret. The jury found that Two Pesos had misappropriated and used the protected trade secrets, causing \$150,000 in damages. 2 J.A. 40 (questions 8-14).¹⁰

d. *The District Court's Judgment.* After the verdict, the court held a hearing to determine the final relief. See 1 J.A. 208-21. The court found that Two Pesos had deliberately copied Taco Cabana's trade dress (*id.* at 209, 217), explaining: "The similarity [of Taco Cabana and Two Pesos] is overwhelming in every aspect, every single aspect of the restaurant. . . . And the conclusion is obvious that Taco Cabana got there first and Two Pesos copied them." *Id.* at 220. Based on its finding "that Two

⁹ The jury rejected Two Pesos's contention that Taco Cabana had lost its protectable trade dress rights when the Stehling brothers divided the Taco Cabana restaurants, with Michael Stehling taking over four of the restaurants and renaming them TaCasita, while keeping the same trade dress. Two Pesos argued that Taco Cabana had lost its rights by failing to maintain supervision and control over the services identified by the trade dress. 10/25 Tr. 97-99. The jury rejected the argument, finding that, partly through a formal licensing agreement (1 J.A. 227-29), Taco Cabana did maintain "adequate supervision and control over TaCasita to make sure the quality of its goods or services are not inferior to those of Taco Cabana." 2 J.A. 40 (question 6); see 1 J.A. 90 (jury instruction). The court of appeals subsequently affirmed this finding. 1 J.A. 20-23.

¹⁰ With respect to damages, we note that petitioner has relied on a document that appears at 2 J.A. 41—which a juror handed to trial counsel after the verdict and which was appended to at least one post-trial motion in the district court—as purportedly reflecting the jury's calculation of damages. But the document should be ignored, not only because it is hardly self-explanatory, but because it is not part of the trial record and would be inadmissible under Fed. R.

Pesos intentionally and deliberately infringed Taco Cabana's trade dress" (*id.* at 105), the court doubled the jury's award of trade dress damages and awarded attorney's fees. *Id.* at 105, 108. The court also entered an injunction aimed at undoing and preventing customer confusion. *Id.* at 106-08.

3. *The Court of Appeals Decision.* The court of appeals affirmed. 1 J.A. 1-37. The court first found that the jury had properly protected a genuine, indeed a distinctive, trade dress, not a broad "Mexican theme for a Mexican restaurant." *Id.* at 14. The court agreed with Two Pesos that "Taco Cabana cannot preclude Two Pesos or anyone from entering the upscale Mexican fast-food market," but it held that no such preclusion occurred in this case: "the jury was not misled into protecting such an abstract level of Taco Cabana's trade dress." *Ibid.* The court explained that any "competitor can use elements of Taco Cabana's trade dress" and that Two Pesos was free to "enter the upscale Mexican fast-food market." *Id.* at 14-15 (footnote omitted). But Taco Cabana has a "distinctive combination of layout and design features," and "Two Pesos' imitation reflects not merely components of Taco Cabana's trade dress, but its distinctive integration of components." *Id.* at 14-15. The jury in this case, instructed that trade dress is the "total image of the business" (*id.* at 13), was "properly cautioned" to focus precisely on "the overall combination of elements" (*id.* at 15). Thus, what was found protected was a valid, distinctive trade dress—a detailed combination of elements that, taken as a whole, made a distinctive visual impression not needed by competitors—and not a general Mexican decor or the general "concept" of an "upscale Mexican fast-food" restaurant. *Id.* at 15.¹¹

Evid. 606(b) as a declaration by (some) jurors about their deliberations.

¹¹ The court pointed out that Two Pesos's own franchise agreement "assumes the protectability of essentially that which it here asserts cannot be protected." 1 J.A. 15 n.5. That agreement defines

The court of appeals likewise upheld the finding that Taco Cabana's trade dress is inherently distinctive. 1 J.A. 18-20. The court reiterated the established law in the Fifth Circuit that an inherently distinctive trade dress is protected under Section 43(a), despite the lack of secondary meaning. *Id.* at 18 n.7. The court then concluded that the jury was properly instructed that if the trade dress is distinctive (as it is in this case), then it is inherently distinctive as long as it is "neither descriptive nor functional." *Id.* at 19. And just as Taco Cabana's trade dress was properly found non-functional despite containing functional elements,¹² it was likewise properly found non-descriptive despite "embodying certain descriptive elements" (*id.* at 20):

Again, competitors may use individual elements in Taco Cabana's trade dress, but the law protects the distinctive totality. The jury visited both Taco Cabana and Two Pesos, and heard ample evidence of the distinctiveness of Taco Cabana's total trade dress, including the impressions of individuals responsible for the ultimate look of Two Pesos, who were sufficiently impressed with the distinctiveness of Taco Cabana's trade dress to replicate it. Given its rather brazen appropriation of Taco Cabana's distinctive combination, Two Pesos cannot escape accountability

"trade dress" as "'certain distinctive and identifying restaurant layout and design features, including distinctive building design, decor, accessories and fixtures and other identifying trade dress in the interior and exterior of its Restaurants.'" *Ibid.* (quoting PX 266 at 6).

¹² Explaining that the non-functionality requirement is designed to ensure "a latitude of competitive alternatives" for the marketplace, the court of appeals concluded that "Taco Cabana's particular integration of elements leaves a multitude of alternatives to the upscale Mexican fast-food industry that would not prove confusingly similar to Taco Cabana's trade dress." 1 J.A. 16, 17. "The jury heard substantial evidence of alternative combinations that could be used to compete effectively, and the record contains ample evidence that Taco Cabana's trade dress is, taken as a whole, non-functional." *Id.* at 17-18.

for unfair competition simply by pointing to particular elements it might have fairly employed for its own trade dress.

In affirming the verdict, the court of appeals also upheld the jury finding of likelihood of consumer confusion about Two Pesos's affiliation with Taco Cabana: it approved the jury instruction and pointed to the ample evidence of such likely confusion, including survey evidence, the intrinsic similarity, and Two Pesos's intent. 1 J.A. 23-25. The court of appeals further upheld the jury finding of trade-secret misappropriation under Texas law (*id.* at 26-31) as well as the district court's order of relief, including the award of double damages for the trade dress infringement (*id.* at 31-37). Noting the "substantial evidence of willful infringement" (*id.* at 35-36), the court of appeals concluded: "The weight of the evidence persuades us, as it did [District] Judge Singleton, that Two Pesos brazenly copied Taco Cabana's successful trade dress, and proceeded to expand in a manner that foreclosed several lucrative markets within Taco Cabana's natural zone of expansion." *Id.* at 36 n.20.

SUMMARY OF ARGUMENT

I. The court of appeals correctly affirmed the jury finding that Taco Cabana's trade dress is inherently distinctive. The jury was properly instructed that, to be inherently distinctive, Taco Cabana's trade dress as a whole had to serve as a symbol of origin, to distinguish Taco Cabana's restaurants from those of competitors, and not be descriptive or functional. The evidence amply supported the jury's finding of inherent distinctiveness: Taco Cabana's trade dress is a memorable, unusual, complex combination of structural and surface elements that convey a singular image and that no other business remotely needs to copy in order to compete. Nothing about the instruction or the evidence supports Two Pesos's allegation that protection was afforded to a broad "Mexi-

can restaurant concept" rather than an inherently distinctive trade dress.

Because inherent distinctiveness is a question for each particular trade dress, petitioner cannot attack the jury finding by asserting that trade dresses are not "usually" inherently distinctive or that restaurant trade dresses are "rarely" so—generalizations that, in any event, petitioner offers no reason whatever to consider valid as an empirical matter. Likewise, it is irrelevant (and commonplace) that various *elements* of a trade dress are either functional or descriptive. What matters is that the total combination is found distinctive, as it properly was in this case.

That finding is fully consistent with the jury's additional finding that Taco Cabana's trade dress lacked a secondary meaning in the Texas market. The absence of marketwide consumer source association, at the early stages of a product's introduction into the market, is perfectly compatible with the *inherent* distinctiveness of a trade dress—in petitioner's words, its "capacity" to develop recognition by the market. Thus, the lack of current widespread consumer recognition in the entire State of Texas in no way disproves the potential for such recognition and, hence, in no way casts doubt on the distinctiveness of Taco Cabana's trade dress.

II. The finding of inherent distinctiveness is legally sufficient to support the verdict under Section 43(a). When a defendant has used what amounts to a copy of the plaintiff's distinctive trade dress, just as if it used the plaintiff's distinctive trade name, that use constitutes a "false" communication: it says (to consumers unfamiliar with the plaintiff) that the dress (like the name) is a unique brand identifier of the defendant; it also says (to consumers familiar with the plaintiff) that the defendant is affiliated with the plaintiff. These false messages are

likely to generate confusion (once the products are offered in the same markets), regardless of whether the trade dress has yet acquired the sort of market-wide recognition needed for secondary meaning. Thus, inherent distinctiveness is sufficient for protection under the text of Section 43(a).

That conclusion is confirmed by Section 2 of the Lanham Act, where Congress expressly stated that federal protection against infringement is to be available upon proof of inherent distinctiveness. 15 U.S.C. § 1052. The same section simultaneously makes clear that secondary meaning (acquired distinctiveness) is *not* required where inherent distinctiveness is present, but is, rather, an alternative basis for protecting designations that would otherwise be unprotectable for lack of inherent distinctiveness. A reading of Section 43(a) that would require proof of inherent *and* acquired distinctiveness in any case would run afoul of these clear congressional judgments.

Congress made those judgments because protecting designations from their inception is necessary to serve the Lanham Act's dual policy of protecting businesses' interest in their present and potential reputation (embodied in their trade dresses, marks, or names) and consumers' interest in having ready brand identifiers to make brand selection more efficient. Since a new business with a distinctive trade dress (or mark or name) cannot possibly have acquired market-wide recognition for it, requiring proof of secondary meaning would leave a competitor free to appropriate the identifying designation and thereby impair the originator's market opportunities. The prospect of such copying—which is exactly what occurred here—would discourage both the development of new businesses and the creation of distinctive identifiers that help the market function, undermining the Act's central purposes.

There is no basis for treating trade dress differently from trademarks. Neither the statutory language nor

the policies of the Act make any such distinction, but apply equally to any distinctive designation of source. Nor can Section 43(a) be read as codifying an old common-law cause of action that required secondary meaning to protect a trade dress. Indeed, any reading that distinguished trade dress from trademarks would founder on the fact that there is no clear boundary between the categories: a trade dress may generally be a "trademark" eligible for protection as such. It would, in any event, defy common sense to give *less* protection to trade dress, which, as the total image of a product or service, may be a *more* powerful identifier of source to consumers, easier for competitors to avoid copying inadvertently, and more costly for the originator to alter in response to appropriation by a second user if such appropriation were legally permitted.

Finally, the 1988 amendments to the Lanham Act confirm the sufficiency of inherent distinctiveness under Section 43(a). Those amendments broadened the language of the provision to make clear that it protects any symbol, device, or combination of such against copying or other use that is likely to cause confusion. In taking that action, Congress both approved the broad judicial development of protection under the provision, including protection for trade dress, and authorized continuation of such common-law-like development consistent with the reaffirmed policies of the Act. Congress also expressly equalized the basic infringement protections available to registered and unregistered trademarks. These actions confirm that the court of appeals properly rejected any requirement that secondary meaning be proved to protect Taco Cabana's distinctive trade dress.

ARGUMENT

THE COURT OF APPEALS CORRECTLY UPHELD LIABILITY UNDER SECTION 43(A) OF THE LANHAM ACT BASED ON THE JURY'S FINDING THAT TACO CABANA'S TRADE DRESS IS INHERENTLY DISTINCTIVE.

The basic concepts at issue in this case have well-accepted meanings. "Trade dress," though not a term used by the Lanham Act, is "the general image or appearance of goods or services as offered for sale in the marketplace." *Restatement (Third) of Unfair Competition* § 16 comment a (Tent. Draft No. 2, approved May 1990) [hereafter "*Restatement*"]. "Trade dress" involves the total image of a product and may include features such as size, shape, color or color combination, texture, graphics, or even particular sales techniques." *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983). See Pet. Br. 6; 1 J. McCarthy, *Trademarks and Unfair Competition* § 8.1 (2d ed. 1984 & Supp. 1990) [hereafter "*McCarthy*"]; *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604, 608 (7th Cir. 1986).

A trade dress, or trademark or service mark, becomes a candidate for protection if it is "distinctive," that is, if "it serves as a symbol of identification." *Restatement* § 13 comment a. That can occur in either of two ways, as the law has long recognized: it can "point distinctively, either by its own meaning or by association, to the origin or ownership of the wares to which it is applied." *Estate of P.D. Beckwith, Inc. v. Commissioner of Patents*, 252 U.S. 538, 543 (1920) (emphasis added). Distinctiveness of the first sort is "inherent distinctiveness"; distinctiveness of the second sort is "secondary meaning."

More specifically, a trade dress or mark of a business is "inherently distinctive" if, as the phrase naturally means, its inherent characteristics enable it to serve as

a distinguishing identifier of the product of that business in a competitive market: in the Lanham Act's terms, the particular brand of the product "may be distinguished" by the mark or dress from other brands. Lanham Act § 2, 15 U.S.C. § 1052. To use petitioner's words, the dress or mark must, by virtue of its intrinsic properties, be different enough from those of existing or potential competing brands that it has the "capacity" to be "identified and recognized prospectively" by the public as an identifier of the particular brand. Pet. Br. 14 (emphasis removed).¹³ It follows that a mark or dress cannot be inherently distinctive if it is "generic" or "merely descriptive"—i.e., if it names or describes the product rather than the brand (e.g., "personal computer," "shredded wheat," "raisin bran," "little tavern")—because, presumptively at least, such marks or dress must be available to competing sellers in order to communicate with consumers about what they sell. See *Blau Plumbing*, 781 F.2d at 609. By contrast, a mark or dress is inherently distinctive if it is "arbitrary," "fanciful," or "suggestive," because such a mark or dress *can* serve to differentiate a particular source without hindering competitors' ability to communicate with consumers. See *Restatement* § 13 comment c; 1 *McCarthy* §§ 11:1-11:26; 3 R. Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* § 18.01, at 2 (4th ed. 1983).

"Secondary meaning" indicates that a mark or dress is distinctive as a brand identifier, not based on how intrinsically unusual it is, but based on its having "become distinctive" (to use the statutory language of § 2(f), 15 U.S.C. § 1052(f)) over time through use in the

¹³ See *Restatement* § 13(a) ("the designation is inherently distinctive [if], because of the intrinsic nature of the designation and the context in which it is used, prospective purchasers are likely to perceive it as a designation that . . . identifies goods or services produced or sponsored by a particular person"); *id.* comment d ("striking, unusual, or otherwise likely to differentiate the products of a specific producer").

market. See *Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985). Such "acquired distinctiveness" of a trade dress or mark means that, "as a result of its use, prospective purchasers in fact have come to perceive it as a designation that identifies" the source or sponsorship of the product. *Restatement* § 13(b). The phrase "secondary meaning" reflects the origins of this notion in the situation where a mark, at its inception, primarily means something descriptive about the product (e.g., "little tavern") but, at a second point in time, develops in consumers' minds a new primary significance, namely, identification of the particular brand.¹⁴ Today, "secondary meaning" is used generally (if somewhat misleadingly), even when there is no initial descriptive meaning to overcome, to indicate that the dress or mark "has come through use to be uniquely associated with a specific source." *Restatement* § 13 comment e; see 3 R. Callman, *supra*, § 19.26, at 143; 1 *McCarthy* § 15:2.

In brief, "secondary meaning" refers to present widespread consumer association of the mark or trade dress with a particular brand, whereas "inherent distinctiveness" refers to the characteristic of a trade dress or mark that it is sufficiently different, intrinsically, so that it can become an identifier of the brand, whether or not consumers yet recognize it. The court of appeals held that

¹⁴ See *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 851 n.11 (1982) ("To establish secondary meaning, a manufacturer must show that, in the minds of the public, the primary significance of a product feature or term is to identify the source of the product rather than the product itself."); *Restatement* § 13 comment e ("A designation that is not inherently distinctive, such as a word that describes the nature of the product on which it appears, may nevertheless become, as a result of its use by a particular person, uniquely associated with that person's goods, services, or business. Acquired distinctiveness is called 'secondary meaning.' 'Secondary meaning' does not connote a subordinate or rare meaning. Instead it refers to a subsequent significance added to the previous meaning of the term.")

the jury in this case properly found that the entire combination of elements that gives Taco Cabana its total image was inherently distinctive (and copied by Two Pesos)—not the building structure alone, or the paint scheme, or the interior arrangements, or any other feature by itself, but the whole integrated arrangement. The court also held that those jury findings were sufficient to support liability, regardless of whether the trade dress yet had secondary meaning throughout Texas. Those conclusions are both correct: Two Pesos was not free under Section 43(a), as it claims, to appropriate Taco Cabana's whole trade dress before it became known statewide, to use that trade dress to enter cities where Taco Cabana had not yet opened, and thereby to impair, delay, or foreclose Taco Cabana's potential business in those markets.

I. THE COURT OF APPEALS PROPERLY UPHeld THE JURY FINDING THAT TACO CABANA'S TRADE DRESS IS INHERENTLY DISTINCTIVE.

The jury in this case found that Taco Cabana had an inherently distinctive trade dress and that Two Pesos's trade dress was so similar as to create a likelihood of confusion with Taco Cabana. Petitioner's entire brief is an attack on the jury finding that Taco Cabana has an inherently distinctive trade dress. But because petitioner cannot point to any misstatement of law in the court of appeals' opinion, its challenge in the end does no more than ask the Court to revisit the court of appeals' judgments that the particular terms of the jury charge in this case were adequate and that the evidence was sufficient to support the finding of an inherently distinctive trade dress. There is no basis for overturning those judgments. See *Goodman v. Lukens Steel Co.*, 482 U.S. 656, 665 (1987) (rule against reviewing concurrent findings of lower courts); *United States v. Ceccolini*, 435 U.S. 268, 273 (1978) (same); *Graver Tank & Mfg. Co.*

v. Linde Air Products Co., 336 U.S. 271, 275 (1949) (same).¹⁵

To begin with, both the court of appeals and the jury instructions properly required that liability, if any, be premised on something more than Taco Cabana's "restaurant concept of an upscale, fast-food Mexican restaurant with a drive-thru and a liquor license." Pet. Br. 7. The jury instructions defining the protectable "trade dress" directed the jury's attention to how the restaurant looked, defining "trade dress" as the "total image of the business." 1 J.A. 83 (emphasis added). The court noted that the trade dress "may include" the "shape and general appearance" of the restaurant, its "sign," its "floor plan," its "decor," its "menu," its "equipment," its servers' "uniforms," and other features—insofar as they "reflect[ed]" on the total image of the restaurant." *Id.* at 83-84. The instruction on likely confusion, with its focus on the "[s]imilarity of appearance" between Two Pesos's and Taco Cabana's trade dress (*id.* at 89), reinforced this emphasis on image. The court of appeals, in reviewing

¹⁵ The question of inherent distinctiveness, being a question about the unusualness and recognizability of an overall image, is a "factual issue." *WSM, Inc. v. Hilton*, 724 F.2d 1320, 1326 (8th Cir. 1984). See 1 *McCarthy* § 11:1, at 434 n.6 (1984) and 88 (Supp. 1990) (citing cases from First, Fifth, Seventh, Eighth, and Federal Circuits); *Centaur Communications, Ltd. v. A/S/M Communications, Inc.*, 830 F.2d 1217, 1225 (2d Cir. 1987) ("strength of the mark"—whether it is inherently distinctive or instead descriptive or generic—is a question of fact); cf. *Inwood Lab.*, 456 U.S. at 857 n.20 (treating functionality as factual question); *Restatement (Third) of Unfair Competition* § 21 comment m and reporter's notes (Tent. Draft No. 3, tentatively approved 1991) (likelihood of confusion generally is treated, and should be treated, as a question of fact). Even aside from the "two court" rule, a jury finding may not be disturbed by an appellate court where "there is an evidentiary basis for the jury's verdict" (*Lavender v. Kurn*, 327 U.S. 645, 653 (1946)), a standard at least as deferential as the "clearly erroneous" standard of review (*Bose Corp. v. Consumers Union of United States, Inc.*, 466 U.S. 485, 508 n.27 (1984)).

the verdict, likewise insisted that protection be limited to "a combination of visual elements" and the "visual impression" that the combination creates. *Id.* at 14 (internal quotes omitted).

The court of appeals thus correctly rejected the argument that Two Pesos was denied the right to use the "concept" of a fast-food Mexican restaurant. A jury is presumed to follow its instructions (*Richardson v. Marsh*, 481 U.S. 200, 206-07 (1987)), and any speculation that the jury did not so here is intrinsically implausible. This is not a difficult case on its facts: Taco Cabana plainly does have a trade dress—an elaborate, consistently maintained combination of structural and decor elements that give it a consistent "look"—as proved by the restaurant models and photographic exhibits. Other competing Mexican restaurants do not have to, and (except for Two Pesos) do not, use a similar look. See note 6, *supra*. And while there were various references to Taco Cabana's "concept" in the trial, those references were entirely understandable as either general references to the overall look or as directly concerned with Taco Cabana's trade secret claim—the claim that Taco Cabana's overall mode of operating was a trade secret protected under Texas law. See 1 J.A. 45-47 (complaint), 135-37 & 143-44 (evidence); 2 J.A. 40 (question 10). Those references therefore cannot support the speculation that the jury disobeyed its instructions and protected a mere "concept" under the Lanham Act.

The court of appeals and the jury instructions likewise properly followed the well-understood, common-sense meaning of the concept of inherent distinctiveness. The district court required that, to be found inherently distinctive, Taco Cabana's trade dress must "serve[] as a symbol of origin" and "distinguish[] its products and services from those of other restaurants" and must not be "descriptive"; it also demanded that the trade dress be "non-functional," which it explained at length as meaning

that the "design features" be "merely arbitrary," or an "arbitrary embellishment." 1 J.A. 86, 84, 85. The court of appeals, for its part, properly recognized that inherent distinctiveness means that the trade dress is "distinctive"; that it is not descriptive or functional, which the court understood to mean that competing upscale, fast-food Mexican restaurants can readily and effectively compete without appropriating it; and that it is therefore arbitrary, fanciful, or suggestive. *Id.* at 18-19 & n.8, 16-17. These standards not only reflect a proper understanding of the concept, but are simple and commonsensical enough that no further elaboration was required to ensure that the right inquiry was conducted below.

As with the basic issue whether Taco Cabana had a trade dress, the clarity and one-sidedness of the evidence on the issue of inherent distinctiveness leaves no room for speculation about the validity of the verdict in this regard. There can be no real doubt, as the court of appeals expressly agreed (1 J.A. 14-15), that Taco Cabana has an inherently distinctive trade dress. It is a complex and carefully arranged combination of visual elements—*e.g.*, the exterior structure of the buildings, the color scheme with border stripes, the umbrellas, the garage-door patio, the menu board, counter, and interior arrangements—that together create a singular, striking impression and give Taco Cabana an unmistakable, recognizable identity, one that competitors have no need to borrow in order to compete. The jury had ample evidence of the distinctiveness of the "look," including the replicas and photographs and, perhaps most strikingly, the jury's own viewing of the restaurants. The finding of inherent distinctiveness is thus fully grounded in the record.¹⁶

¹⁶ The trade dress, taken as a whole, readily qualifies as inherently distinctive under the multi-factor approach set forth in *Seabrook Foods, Inc. v. Bar-Well Foods, Ltd.*, 568 F.2d 1342, 1344 (C.C.P.A. 1977). See *Ambrit, Inc. v. Kraft, Inc.*, 805 F.2d 974, 979 (11th Cir. 1986); Brief Amicus Curiae of United States Trade-

Petitioner nevertheless argues that the jury's finding of inherent distinctiveness cannot coexist with its finding of no secondary meaning in the Texas market. Pet. Br. 9-10, 15-16, 18-19. But that argument reflects a misunderstanding both of the legal concepts and of the jury finding. The finding that Taco Cabana's trade dress lacked secondary meaning "in the Texas market" means simply that consumers did not yet recognize the trade dress "throughout the entire state of Texas" (10/25 Tr. 91 (Two Pesos closing argument to jury)). For a business that had just begun to open in parts of Texas outside San Antonio—in some of which, of course, Two Pesos had opened first, using a trade dress that the jury specifically found was confusingly similar to Taco Cabana's—such a lack of actual recognition is hardly surprising, as Two Pesos itself argued to the jury. *Ibid.* (see note 8, *supra*). More important, it says nothing about the "capacity" eventually to develop such recognition, based on how intrinsically unusual the trade dress is, given time in the market and protection against copying. It is that capacity which made Taco Cabana's trade dress inherently distinctive.

Petitioner cannot escape this conclusion by asserting that trade dresses are not "usually" inherently distinctive or that restaurant trade dresses fall into a special category, only "rarely" being inherently distinctive. Pet. Br. 10-13, 17-18. For one thing, petitioner offers no evidence whatever that these generalizations are valid as a

mark Ass'n (USTA) at 15. Taco Cabana's trade dress is not a common basic shape or design (it is a complex arrangement of various features); it is unusual in its field (no one else, except Two Pesos, used it); there is no evidence that it is a mere refinement of a commonly adopted form of ornamentation in this business; and there was ample evidence that it is capable of creating a commercial impression distinct from the restaurant's name (that is why Two Pesos was confused with, and TaCasita is known by customers to be affiliated with, Taco Cabana).

factual matter. To the contrary, it is self-evidently possible for a trade dress, even a restaurant trade dress, to be inherently distinctive. Indeed, both common experience and the record here show that restaurants routinely use distinctive trade dresses to develop an identity in their markets: as the court of appeals pointed out (1 J.A. 15 n.5, *see note 11, supra*), Two Pesos's own franchise agreement demonstrates the importance of a distinctive trade dress to restaurants. *See also* 1 J.A. 190, 192; 9/27 Tr. 84. Accordingly, whether a particular restaurant trade dress is inherently distinctive presents a case-specific factual question (*see* USTA Br. 16-17), and the validity of the particular finding of inherent distinctiveness in this case cannot be undermined by the sort of unfounded generalizations petitioner makes.

Nor can it be undermined by petitioner's remaining claims that the trade dress cannot be inherently distinctive because it "contains many functional elements" and is "descriptive and generic," in that it "calls to mind . . . that the food served is Mexican." Pet. Br. 19-21.¹⁷ As an initial matter, the argument that the trade dress is unprotected because of its "functional" elements raises the second question presented in the petition, which this Court decided not to hear. *See* Pet. i. Beyond that, these suggestions make the obvious mistake of focusing on the

¹⁷ Petitioner also argues that Taco Cabana's trade dress is not inherently distinctive because it was used by TaCasita as well as Taco Cabana. Pet. Br. 22-26. This contention, however, is outside the scope of the question presented in the petition, and no reference to the TaCasita/Taco Cabana split can be found in the petition for a writ of certiorari. It is therefore not properly before this Court. In any event, it is well-recognized that a trademark may be "franchised" without loss of protection as long as sufficient control is maintained over the related goods or services. *See* Lanham Act § 5, 15 U.S.C. § 1055; 1 *McCarthy* §§ 18:13-18:24; *Restatement* § 33 (Tent. Draft No. 3). There is no reason why the same rule should not apply to a trade dress. As noted, the jury found the requisite control in this case, and the court of appeals upheld that finding. *See note 9, supra*.

elements of the trade dress in isolation and refusing to consider the trade dress as a whole. What this case is about is Two Pesos's appropriation not just of the building structure, or the paint scheme, or the awnings, or the interior arrangement, or the garage doors, or any other single feature; this case involves Two Pesos's appropriation of the whole combination, and it is that combination which was held protected as inherently distinctive below, even though some of the elements by themselves may be unprotected. That approach was correct, and uniformly supported by the case law, because it is the overall image that creates the visual impression identifying a product and because complex images or designs (in trade dresses or marks) necessarily often consist of elements that are commonplace, functional, or in some way descriptive of a feature of the product they identify. *See, e.g.,* 1 J.A. 16, 20; *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1143 (3d Cir. 1986); *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1431 (7th Cir. 1985), *cert. denied*, 475 U.S. 1147 (1986); 1 *McCarthy* § 8:1, at 283.

The only proper question, in short, is whether there is sufficient evidence to support the jury's finding that, taken as a whole, Taco Cabana's trade dress is not merely descriptive of the product offered. Plainly there is such evidence. *See* 1 J.A. 14-15. Taco Cabana's complex, integrated trade dress goes well beyond any design that simply communicates the Mexican, upscale, or fast-food character of the restaurant; both the photographic exhibits and other evidence (*see note 6, supra*) prove that it is far from necessary for a competing restaurant to use a confusingly similar trade dress to describe its service. The jury finding of inherent distinctiveness thus may not be disturbed.

II. NO PROOF OF SECONDARY MEANING WAS REQUIRED FOR TACO CABANA TO ESTABLISH THAT TWO PESOS'S COPYING OF ITS INHERENTLY DISTINCTIVE TRADE DRESS VIOLATED SECTION 43(A).

Petitioner's brief does not challenge the court of appeals' legal holding that, if Taco Cabana's trade dress is inherently distinctive, liability under Section 43(a) was properly imposed on Two Pesos without proof of secondary meaning. To the contrary, the brief repeatedly assumes, and at least once seems explicitly to concede, that liability under Section 43(a) of the Lanham Act, even for trade dress, may rest on *either* a finding of inherent distinctiveness *or* a finding of secondary meaning. See, e.g., Pet. Br. 9 n.3, 11, 13, 17, 27.¹⁸ Petitioner's failure to take issue with the court of appeals' ruling on this point is reason enough for this Court not to reverse that ruling.¹⁹

In any event, the court of appeals' ruling that no proof of secondary meaning is required for an inherently distinctive trade dress is correct. In practical terms, the

¹⁸ "In order to establish liability on Taco Cabana's trade dress claim, it was necessary for Taco Cabana to prove (i) that its trade dress was inherently distinctive, without proof or a finding by the Jury that the trade dress lacked secondary meaning, or (ii) that the trade dress had secondary meaning, although it was not inherently distinctive." Pet. Br. 9 n.3. Petitioner does argue that the finding of no secondary meaning undermines the finding of inherent distinctiveness here—an argument that, as discussed above, is plainly wrong—but petitioner does not dispute that inherent distinctiveness, if properly found, is legally sufficient to sustain liability under Section 43(a).

¹⁹ See, e.g., *Holmes v. Securities Inv. Protection Corp.*, 60 U.S.L.W. 4225, 4230 n.22 (Mar. 24, 1992) (theory raised at oral argument "comes too late" if not in party's brief). Although one *amicus* argues the point (Brief *Amicus Curiae* of Private Label Manufacturers Association 5-17), this Court has explained that it does "not ordinarily address issues raised only by *amici*." *Kamen v. Kemper Fin. Servs., Inc.*, 111 S. Ct. 1711, 1716 n.4 (1991).

issue is whether an inherently distinctive trade dress is protected from its inception or instead is subject to copying during the time needed to acquire consumer recognition. Under the common law prior to the 1946 enactment of the Lanham Act, it was clear that a trademark received protection from its inception, as Justice Holmes explained for the Court in *Beech-Nut Packing Co. v. P. Lorillard Co.*, 273 U.S. 629, 632 (1927) (emphasis added):

A trade-mark is not only a symbol of an existing good will although it commonly is thought of only as that. Primarily it is a distinguishable token devised or picked out with the intent to appropriate it to a particular class of goods and with the hope that it will come to symbolize good will. Apart from nice and exceptional cases and within the limits of our jurisdiction *a trade-mark and a business may start together*.

In Section 2 of the 1946 Lanham Act, Congress expressly decided that federal protection should be accorded trademarks from their inception. Although the bulk of the Act, prior to 1988, was concerned with registered marks, Section 43(a) has never been so limited: its broader terms bar any misleading use of another's distinctive designation of brand identity. Our argument, based on those broad terms and supported by the trend in the case law, is that Congress's decision to furnish federal protection upon proof of inherent distinctiveness, and the policy judgment underlying that decision, carry over to demand the protection of an inherently distinctive trade dress, like a trademark, from its inception.

A. The Statute's Language Shows that Proof of Secondary Meaning Is Not Required Where Inherent Distinctiveness Is Shown.

1. Section 43(a) prohibits a business from using a "false designation of origin, or any false description or representation"; it bars use of any "words or other symbols tending falsely to describe or represent" the product

(pre-1989 text). Those words, in their ordinary meaning (see *Park 'N Fly*, 469 U.S. at 194), make copying of any inherently distinctive designation of brand identity actionable without proof of secondary meaning. If a defendant sells its product using a trademark, trade name, or trade dress, the defendant is thereby holding out the goods as distinctively identified by that mark, name, or dress: it says (to consumers unfamiliar with the plaintiff), "this can and should be recognized and remembered as uniquely designating our brand." That claim is false if the designation used by the defendant is actually a copy of an inherently distinctive mark, name, or dress of the plaintiff: the defendant's designation does *not* uniquely identify the defendant. At the same time, the defendant's use of the plaintiff's distinctive mark, name, or dress also says (to consumers familiar with the plaintiff) that the defendant's goods are affiliated with the plaintiff's. That too is false if there is no such affiliation. In both respects, the defendant has made a false communication barred by Section 43(a).²⁰

²⁰ Because of the broad language covering any communication that makes or tends to make a false description or representation, it is immaterial whether the particular "designation of origin" language might be read to refer only to geographical origin. Compare *Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 700 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982), with *Vibrant Sales, Inc. v. New Body Boutique, Inc.*, 652 F.2d 299, 303 (2d Cir. 1981), *cert. denied*, 455 U.S. 909 (1982). In fact, since the 1960s, uniform and frequent judicial interpretation has decisively rejected any reading of Section 43(a) that would treat its broad terms as limited to claims of false assertions about geographical origin, on the one hand, and narrow false advertising claims, on the other. Because a message about brand identity is a "false description or representation," interpretation of Section 43(a) as broadly addressing the whole area of "infringement of an unregistered mark, name or trade dress" has become "a firmly embedded reality," uniformly accepted by the lower courts (and hence relied on by businesses). 2 *McCarthy* § 27:3, at 345, 345-46 & nn.4-6 (citing cases). See *Inwood Lab.*, 456 U.S. at 863 (White, J., concurring in the result).

This falsity is most starkly obvious where a defendant has willfully used the plaintiff's distinctive trade name—e.g., if Two Pesos had willfully called itself "Taco Cabana." In that situation, it is plain that the defendant has falsely asserted a distinctive trade name and an affiliation with the plaintiff. But the same falsity occurs whether the use is willful or innocent, and whether the plaintiff uses a distinctive trade dress, mark, or name. Thus, the issue of falsity is independent of willfulness, the latter not being an element under Section 43(a); the same meaning is present, and hence the same falsity, regardless of the defendant's intent.²¹ The same falsity likewise exists when the defendant uses a trademark or a trade dress, as long as it, like the trade name, is inherently distinctive of the plaintiff. Thus, when Two Pesos used Taco Cabana's inherently distinctive trade dress, it violated Section 43(a) exactly as much as if it had called itself "Taco Cabana."

The requirement of falsity under Section 43(a) readily explains why proof of secondary meaning is necessary only when a trade dress (or mark or name) is *not* inherently distinctive. If such a mark, dress, or name is "merely descriptive" of the product (Lanham Act § 2(e), 15 U.S.C. § 1052(e)), then its meaning, at that moment, is not as a designation of a particular brand. During the time that the descriptive meaning prevails, use of the dress (or mark or name) by *any* brand does not falsely indicate either unique brand identification or affiliation with a particular source. But if and when the dress (or mark or name) acquires secondary meaning—if and when its primary meaning comes to be as a signifier of a particular brand—then its use by another brand becomes

²¹ See 2 *McCarthy* § 27:7, at 365. A requirement of willfulness and intent to deceive was in the predecessor of Section 43(a)—Section 3 of the 1920 Trademark Act, Pub. L. No. 66-163, 41 Stat. 534—but it was omitted from Section 43(a) of the 1946 Lanham Act.

false. Section 43(a)'s requirement of falsity thus naturally differentiates the inherently distinctive trade dress (or mark or name) from one that is not inherently distinctive, requiring secondary meaning only for the latter.

While inherent distinctiveness is accordingly enough to show falsity, liability under Section 43(a) also requires proof of likely consumer confusion.²² By demonstrating that consumers would likely be confused if they encountered both products (though they have not yet done so), the plaintiff can show that the defendant's conduct "tend[s]" to give a false description or representation and, also, that there is both actual and likely harm—in the language of Section 43(a), that the plaintiff "is or is likely to be damaged" by the falsity. Most simply, such likelihood of confusion can lead directly to the impairment, delay, or foreclosure of business expansion in areas where the defendant has already sought to preempt the identifying trade dress (or mark or name)—precisely what Two Pesos set out to do, and did, in this case. See pages 3-4, 10-11, *supra* (Two Pesos scheme to enter Houston market before Taco Cabana, and damage from foreclosed business). In short, inherent distinctiveness plus likely confusion satisfies the terms of Section 43(a).

The Second Circuit, in explaining its contrary view that proof of secondary meaning is required even where inherent distinctiveness is shown, made at least two fundamental textual mistakes. See *Vibrant Sales*, 652 F.2d at 303-04. First, it relied on the absence of "likely to cause

²² It does not require proof of actual confusion, a point not disputed here. The plaintiff may nevertheless choose to prove actual confusion in order to demonstrate a particular type of damage suffered as a result of the copying—namely, that consumers who did recognize its trade dress were in fact confused about the defendant's affiliation and as a result did not make purchases from the plaintiff that they otherwise would have made (either because they liked or because they disliked the defendant's product). See *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985).

confusion" language in Section 43(a) (652 F.2d at 304); but the suggestion that Section 43(a) therefore requires actual confusion, based on widespread consumer recognition of the plaintiff, is wrong: as we have explained, a likelihood of confusion satisfies the standards of Section 43(a). Second, the Second Circuit suggested that there can be no "false" representation unless the public as a whole recognizes the defendant's dress (or mark or name) as really the plaintiff's (652 F.2d at 303); but that view confuses two distinct points: whether a representation is false, and whether a particular audience as a whole understands the representation. A false statement made in French would be false even if none (or only a few) of the particular listeners understood French; Two Pesos's calling itself "Taco Cabana" would be false even if none (or only a few) of Two Pesos's consumers were yet familiar with Taco Cabana. Similarly, when a defendant holds out its product with a dress (or mark) that is distinctive of the plaintiff's product, the falsity of the communication made by that act in no way depends on whether the plaintiff's brand is yet widely enough recognized in the market as a whole to establish secondary meaning.²³

2. Reading the language of Section 43(a) to furnish protection upon proof of inherent distinctiveness is directly supported by the Lanham Act as a whole. Most of the Act is concerned with the process of registering trademarks and the legal protections afforded by registration, but the Act is plainly not limited to protecting registered marks, as the language of Section 43(a) as well as the express policy declaration of Section 45 both make clear.²⁴

²³ As noted at page 47, *infra*, both of the textual bases for the Second Circuit's view have been eliminated by the 1988 amendments to Section 43(a), which now (a) expressly includes "likely to cause confusion" language and (b) makes it textually unnecessary to establish "falsity" to recover.

²⁴ Among the Act's purposes, Section 45 declares that it is Congress's intent to make "actionable the deceptive and misleading use of marks" in commerce and "to protect persons engaged in such

In this statutory context, Section 43(a) is properly construed, consistent with its natural meaning, to reflect the basic congressional judgment about federal protection expressed elsewhere in the Act—namely, that protection against infringement must be available upon proof of inherent distinctiveness.

This fundamental congressional judgment, following the pre-1946 common law on trademarks (*see Beech-Nut*, quoted *supra*), is expressly embodied in Section 2 of the Lanham Act. Congress there stated that marks are eligible for registration on a showing of inherent distinctiveness. 15 U.S.C. § 1052 (any mark by which goods “may be distinguished” from others is registrable, unless, as pertinent here, it is “merely descriptive,” § 2(e)). At the same time, Congress made clear in Section 2 that proof of secondary meaning is not an *additional* requirement that inherently distinctive marks must meet. Instead, Congress provided that, by showing secondary meaning, protection could be obtained for some marks that otherwise would not qualify for protection: that is, secondary meaning is required only for marks that are not inherently distinctive (because they are “merely descriptive”). §§ 2(e) & (f), 15 U.S.C. § 1052(e) & (f) (such mark is registrable if it “has become distinctive”). Inherent and acquired distinctiveness are *alternative* bases for protection.

This simple and clear congressional pronouncement that federal protection is available upon proof of inherent distinctiveness, without need for an additional showing of secondary meaning, shows that Congress has made the basic determination that originators of distinctive marks should be protected from their inception, and not be open to appropriation while they establish their identity in the

commerce against unfair competition.” Those purposes are not restricted to registered marks, while other portions of the same statement of purpose are specifically restricted to the protection of registered marks. *See* 15 U.S.C. § 1127.

market. That policy choice properly extends to Section 43(a), directly supporting the court of appeals’ view that inherent distinctiveness is enough for protection of an unregistered mark (or dress or name). Indeed, if Section 43(a) were read to impose a requirement of secondary meaning, there would be *no* federal protection for unregistered, new, inherently distinctive marks. Such a result would run afoul of the congressional determinations embodied in the Act.

This view of Section 43(a) recognizes its proper place within the structure of the 1946 Act: basic protection against infringement is available for unregistered marks (or dress or names) upon proof of inherent distinctiveness (and the other elements of liability); and various *additional* protections are afforded marks that have been registered. Notably, registration gives *prima facie* validity to the registrant’s exclusive right to use the mark (§§ 7, 33, 15 U.S.C. §§ 1057, 1115), shifting the basic burden of proof on the validity of the mark to the defendant in an infringement action. *See* 2 *McCarthy* § 32:43. Registration also gives constructive nationwide notice of the mark (§ 22, 15 U.S.C. § 1072), eliminating a second user’s defense of innocent adoption of a similar mark, a defense that would broadly protect the second user’s right to use the mark at least in a territory distant from the first user’s business. *See Park ’N Fly*, 469 U.S. at 199-200.²⁵ Registration further allows a trademark, after a time, to become “incontestable”—*conclusively* valid, subject to only limited defenses. §§ 15, 33(b), 15 U.S.C.

²⁵ *See United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 100-01 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 418-19 (1916) (“TEA ROSE” case); *Pike v. Ruby Foo’s Den, Inc.*, 232 F.2d 683, 685-86 (D.C. Cir. 1956); 2 *McCarthy* § 26:1, at 287, § 26:18, at 331. Of course, this rule was unavailable to Two Pesos, which deliberately copied Taco Cabana’s trade dress and, indeed, did so in a nearby market within Taco Cabana’s area of natural expansion (1 J.A. 36 n.20).

§§ 1065, 1115(b); *Park 'N Fly*, 469 U.S. at 194-96. See also 1 *McCarthy* § 19:5. Giving Section 43(a) its natural reading of protecting inherently distinctive unregistered marks thus not only gives effect to Congress's judgment that inherently distinctive marks are to be federally protected, but does so without eliminating the statutory differences in treatment for registered marks, and thus fully accords with "the design of the statute as a whole." *Gozlon-Peretz v. United States*, 111 S. Ct. 840, 848 (1991) (internal quotes omitted).

B. Requiring Proof of Secondary Meaning Where Inherent Distinctiveness Has Been Shown Would Undermine the Policies of the Lanham Act.

The essential dispute over the secondary-meaning issue is whether protection of a distinctive identifier of a business's product is available immediately upon its creation, or whether protection is unavailable (and hence copying is allowed) during the time required for the consuming public to get to know the brand and recognize the trade dress identifying it. The policies of the Lanham Act give the same clear answer to that question as does the statute's language: protection of a distinctive trade dress must be available from its inception.

1. Although there is no pertinent specific legislative history stating the intent behind Section 43(a),²⁶ the broad policies of the Lanham Act have long been clear.

²⁶ Section 43(a) was a "little-noticed section" in the Act at the time of its passage, virtually unmentioned in the key reports and hearings. USTA Trademark Review Comm'n, *Report and Recommendations on the United States Trademark System and the Lanham Act*, 77 Trademark Rptr. 375, 376 (1987). See, e.g., H.R. Rep. No. 944, 76th Cong., 1st Sess. (1939); *Hearings on H.R. 102 et al., before the Subcomm. on Trade-marks of the House Committee on Patents*, 77th Cong., 1st Sess. 146, 242 (1941); *Hearings on H.R. 82 before the House Committee on Patents*, 78th Cong., 1st Sess. (1943); H.R. Rep. No. 219, 79th Cong., 1st Sess. (1945); S. Rep. No. 1333, 79th Cong., 2d Sess. (1946); H.R. Conf. Rep. No. 2322, 79th Cong., 2d Sess. (1946).

The Act expressly declares its intent to make "actionable the deceptive and misleading use of marks" in commerce and "to protect persons engaged in such commerce against unfair competition." § 45, 15 U.S.C. § 1127. And as this Court's opinions have made clear, the dual aim of the Act is to protect both businesses, whose commercial investments depend on securing present and potential good will, and consumers, who need information to make shopping (brand selection) efficient; the Act serves these goals by protecting distinctive designations of brands while allowing full play to competing but clearly differentiated brands of the same product or service.

Thus, the Court in *Inwood Lab.* explained "both goals of the Lanham Act. By applying a trademark to goods produced by one other than the trademark's owner, the infringer deprives the owner of the goodwill which he spent energy, time, and money to obtain. At the same time, the infringer deprives consumers of their ability to distinguish among the goods of competing manufacturers." 456 U.S. at 854 n.14 (citations to legislative history omitted). In *Park 'N Fly*, the Court reiterated that the Lanham Act is designed "to secure to the owner of the mark the goodwill of his business and to protect the ability of consumers to distinguish among competing producers. National protection of trademarks is desirable, Congress concluded, because trademarks foster competition and the maintenance of quality by securing to the producer the benefits of good reputation." 469 U.S. at 198 (citations to legislative history omitted). These dual functions—protecting businesses' good will, and providing useful information to consumers—are reflected throughout the Lanham Act's legislative history²⁷ and have been widely recognized.²⁸

²⁷ See S. Rep. No. 1333, *supra*, at 3-5; H.R. Rep. No. 219, *supra*, at 2-3; H.R. Rep. No. 944, *supra*, at 2-4.

²⁸ See, e.g., *Blau Plumbing*, 781 F.2d at 609 ("The goal of trademark protection is to allow a firm to affix an identifying mark to

Protecting an inherently distinctive trade dress from its inception—like protecting an inherently distinctive trademark from its inception, as the pre-1946 common law did, *see Beech-Nut* (quoted *supra*)—is essential to preserve these goals. Without such protection, a business that is contemplating entry into a market with a new brand carrying a distinctive designation would lack the security of knowing that the reputation it will try to develop will be protected from the day it attracts its first customer. New entrants would be discouraged, based on the realistic fear that early gains might be stalled, or wiped out, by a competitor's appropriation of the new designation before marketwide recognition was achieved. Allowing such appropriation would also both directly and indirectly reduce the information (the supply of distinctive brand designations) available to consumers: when appropriation is permitted, the designation's distinctiveness is destroyed, and the appropriator is, at a minimum, freed from the need to create its own new designation; and the prospect of appropriation deters the creation of new designations (and entry into the market) in the first place. Withholding protection until secondary meaning is achieved would thus reduce market efficiency and impair the goals of the Lanham Act.

its product (or service) offering that will, because it is distinctive and no competitor may use a confusingly similar designation, enable the consumer to discover in the least possible amount of time and with the least possible amount of head-scratching whether a particular brand is that firm's brand or a competitor's brand."); *W.T. Rogers*, 778 F.2d at 338; *Scandia Down Corp.*, 772 F.2d at 1429-30 ("Trademarks help consumers to select goods. By identifying the source of the goods, they convey valuable information to consumers at lower costs. Easily identified trademarks reduce the costs consumers incur in searching for what they desire, and the lower the costs of search the more competitive the market. A trademark also may induce the supplier of goods to make higher quality products and to adhere to a consistent level of quality."); 1 *McCarthy* § 2:1.

The effect on small start-up companies like Taco Cabana would be particularly severe. Such a business characteristically has to launch its product on a small scale, expanding its market slowly. A secondary meaning requirement would mean that, during that period (when marketwide consumer recognition has not yet been achieved), no protection would be available to a distinctive brand designation (trade dress, mark, or name). A larger and richer business, seizing on a good idea, might well decide to enter the market. And that company, like Two Pesos, would often find it advantageous to appropriate the trade dress (or mark or name) of the original small business, in an attempt to foreclose or severely diminish the possibilities of continuing or expanded competition from the original business. Indeed, with sufficient advertising and other resources, the larger company might even acquire consumer recognition for the trade dress (or mark or name) as *its* brand designation—which might force the originator of the trade dress (or mark or name) to abandon it to avoid confusion and might, conceivably, even lead the appropriator to sue the originator to force such abandonment. These inevitable consequences of imposing a secondary meaning requirement would directly defeat the Lanham Act's goals.

2. Despite the clear harms to the Act's policies from imposing a requirement of secondary meaning, *amicus* Private Label Manufacturers Association (PLMA) argues that allowing protection of trade dress from its inception would inhibit competition. PLMA Br. 11-16. But this argument, which rests on the false premise that "all combinations of color and design, when introduced into the market, are protectable" under the natural reading of Section 43(a) (*id.* at 12-13), simply ignores the substantial protections for competition that are built into Section 43(a). Liability requires that the trade dress create a distinctive visual impression strong enough to become a brand designation to consumers in a competitive

market; it requires that the trade dress be non-functional, a concept that explicitly focuses on the needs of competitors; and it requires that the defendant's trade dress be so similar that consumer confusion becomes likely. There is no threat to fair competition where those requirements are met, because the "diversity of suggestive and arbitrary trade dress . . . is limited only by human imagination." USTA Br. 13; *see W.T. Rogers*, 778 F.2d at 339 ("Since the supply of distinctive names and symbols usable for brand identification is very large, indeed for all practical purposes infinite, competition is not impaired by giving each manufacturer a perpetual 'monopoly' of his identifying mark; such marks are not a scarce input into the production of goods.")

In this regard, the non-functionality element of Section 43(a) plays a vital role in ensuring that competition (as well as the scheme of the patent laws) is not improperly impaired. That requirement has been carefully developed by the lower courts to ensure precisely such limits on trade dress protection, so that the proper communicative aspects of a product's "look" are protected, but not "functional" aspects of the product itself. *See, e.g., Stormy Cline, Ltd. v. Progroup, Inc.*, 809 F.2d 971 (2d Cir. 1987); *Prufrock, Ltd. v. Lasater*, 781 F.2d 129 (8th Cir. 1986); *W.T. Rogers, supra*; *Restatement* § 17. The requirement was carefully (and correctly) applied in this case, both by the district court in its jury instructions and by the court of appeals. *See* pages 8-9 & note 12, *supra*. And it is that requirement, which is not at issue in this Court, that directly addresses the issues that have been of concern to this Court in cases, like *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), involving the scope of federal patent protection and its relation to state-law protections of designs. As long as the functionality standard is correctly applied, and the inherent distinctiveness standard is met, as both were here, the right to compete is amply protected.

PLMA also suggests that secondary meaning should be required under Section 43(a) as a substitute for notice to potential infringers, such as registration of a trademark provides. PLMA Br. 15. But even aside from the fact that Two Pesos *did* have notice here, and aside from the absence of any notice requirement in Section 43(a), this policy argument has no merit. For one thing, it is dubious whether secondary meaning would, in many cases, provide any better notice to a potential infringer than inherent distinctiveness. Given the difficulties of proving secondary meaning (*see* 1 J.A. 18 n.7), the presence or absence of secondary meaning for trade dresses (or marks or names) will often be uncertain. On the other hand, inherent distinctiveness is often a matter of elementary, common-sense judgment, so that a potential market participant need only examine the existing brands with which it will compete in order to determine what trade dresses to avoid.

In any event, the absence of formal notice has not proved a practical problem for unregistered trademarks, which even before the Lanham Act were protected under common law if inherently distinctive, and are almost everywhere so protected today. *See Beech-Nut, supra*; 1 *McCarthy* §§ 11:1, 11:2, 11:20. Nor has there been any apparent problem of innocent adoption of others' trade dress. Moreover, no real problem of innocent adoption of distinctive trade dresses should be anticipated. The realm of potential trade dresses, no less than the realm of potential trademarks, is so great that, in the absence of deliberate copying, a genuine infringement (much less one that requires costly modifications to eliminate) should prove extremely rare: for example, an accidental duplication of a trade dress as complex as Taco Cabana's would be freakishly improbable. (Also, judicial relief under the Lanham Act generally takes account of the equities in any case. *See, e.g., 2 McCarthy* §§ 30:1, 30:24.) In short, concerns about "notice" to competitors are no

more sufficient to justify allowing appropriation of distinctive, new trade dresses than of distinctive, new trademarks.

C. There Is No Sound Basis for Treating Trade Dresses Differently from Trademarks Under Section 43(a).

Much of petitioner's and the PLMA's argument rests on the explicit or implicit assertion that trade dresses should have less protection under Section 43(a) than trademarks. But the language of Section 43(a) makes no distinctions among the various means by which a business identifies itself, protecting all alike; and the policies of the Act apply equally to demand protection of trade dresses, as of trademarks, from their inception. PLMA therefore resorts to reliance on certain historical differences in common-law treatment. PLMA Br. 5-9. Those differences, however, cannot support reading into Section 43(a) a requirement of secondary meaning that, as already shown, is contrary to its text and policies. To the contrary, any such distinction would be impossible to maintain given the definitions and policies of the Lanham Act.²⁹

1. PLMA's argument depends on reading Section 43(a) as freezing into place a pre-1946 common-law cause of action requiring secondary meaning. That view of Section 43(a) is insupportable. The common law prior to

²⁹ Even the Second Circuit has not treated trade dresses differently from trademarks under Section 43(a). See *Vibrant Sales*, 652 F.2d at 303-04.

It is also worth noting that PLMA has only recently taken a different view of the law from the one it now urges. It told a congressional committee in 1990: "Trademark law protects those non-functional aspects of goods and products which are either truly distinctive or which identify the source or origin of the product." *Industrial Design Protection: Hearings on H.R. 902 et al. before the Subcomm. on Courts, Intellectual Property, and the Administration of Justice of the House Comm. on the Judiciary*, 101st Cong., 2d Sess. 533 (1990) (emphasis added).

1946 recognized two different but related causes of action—one for "technical" trademark infringement; the other for "unfair competition" (though the latter phrase was itself often used to embrace all such competitive torts). The former category, often *defined* by reference to the inherent distinctiveness of the symbols involved, did not require any proof of secondary meaning (as *Beech-Nut* illustrates, quoted above). The latter category *usually* did require proof of secondary meaning, and it was this cause of action by which trade dresses and other "non-technical" trademarks, were traditionally protected. See 1 *McCarthy* §§ 4:3, 8:1-8:2, 11:1-11:2; *Restatement* § 16 comment a & reporters' note; *Estate of P.D. Beckwith*, 252 U.S. at 543; *Restatement of Torts* §§ 715, 717, 741 (1938); J. Shaw, *Trade Marks and Unfair Competition* 5-9 (1952). But there is, quite simply, no sound basis for reading Section 43(a) as precisely codifying the pre-1946 common-law claim of "unfair competition."³⁰

To begin with, there is no evidence that Congress intended such a reading, which, as we have shown, would run counter to the language of Section 43(a), the specific congressional judgment embodied in Section 2, and the policies of the Act. Beyond that, however, the proposed "codification" reading makes no sense. The statute refers to neither of the pre-1946 common-law categories by name and certainly makes no distinction between them (so any "codification" would necessarily apply to trademarks as well as trade dresses). And quite simply, it would be entirely arbitrary to read the provision as adopting only the "unfair competition" cause of action, and ig-

³⁰ Although PLMA's brief cites many cases and authorities, most of the citations do no more than *define* "secondary meaning" (Br. 5 n.5), and not a single cited decision of this Court required secondary meaning where inherent distinctiveness was shown. Notably, the quote from *Armstrong Paint & Varnish Works v. Nu-Enamel Corp.*, 305 U.S. 315 (1938), excerpted at page 9 of PLMA's brief, if read in the original without alteration, concerns only *descriptive* marks.

noring the "trademark infringement" cause of action, or codifying any "arcane distinctions" between them. *Taylor v. United States*, 110 S. Ct. 2143, 2155 (1990). That is particularly so because the boundaries between these categories were hardly drawn with clarity and precision. See 1 *McCarthy* § 4:3. Indeed, the "unfair competition" cause of action itself seems to have been available *without* proof of secondary meaning where deliberate copying was involved, as it was here. See 1 *McCarthy* § 8:2, at 286 & n.17.³¹

Finally, even if Section 43(a) were read as "codifying" a pre-1946 common-law category, it would necessarily bring along the capacity for evolution inherent in the common law itself. Especially given the fluidity of the particular common-law causes of action at issue here, nothing in Section 43(a)—which adopts no common-law terms with a fixed, well-accepted meaning—could preclude the natural process of judicial interpretation to break down artificial distinctions and to bring the law's application into line with the fundamental policies it embodies. Thus, the pre-1946 elements of a particular common-law category cannot foreclose ordinary statutory analysis of text, structure, and purposes, which leads, as shown here, to equal treatment of trade dresses and trademarks, protecting each upon proof of inherent distinctiveness.³²

³¹ This seems still to be true under New York law. See *Harlequin Enters. Ltd. v. Gulf & Western Corp.*, 644 F.2d 946, 949 (2d Cir. 1981); *Perfect Fit Indus., Inc. v. Acme Quilting Co.*, 618 F.2d 950, 954 (2d Cir. 1980); *Maternally Yours, Inc. v. Your Maternity Shop, Inc.*, 234 F.2d 538, 544 & n.5 (2d Cir. 1956); *American Chicle Co. v. Topps Chewing Gum, Inc.*, 208 F.2d 560, 562-63 (2d Cir. 1953); *My-T Fine Corp. v. Samuels*, 69 F.2d 76, 77 (2d Cir. 1934).

³² This Court stated in *Bonito Boats*, 489 U.S. at 157-58, that "the common-law tort of unfair competition" has required secondary meaning in cases involving "nonfunctional aspects of consumer products." That observation may have meant to refer only to the traditional common-law cause of action for unfair competition (thus excluding traditional trademark law as well as more recent devel-

2. An effort to maintain a distinction between "trade dress" and "trademark" would in any event be impossible. There is simply no workable line between the two categories. On the one hand, the Lanham Act nowhere uses (or therefore defines) the phrase "trade dress." On the other, it does define "trademark," but the broad definition readily encompasses a trade dress like Taco Cabana's. Thus, "any word, name, symbol, or device or any combination thereof" used "to identify and distinguish" goods or "to indicate the source of the goods" can be a trademark. § 45, 15 U.S.C. § 1127. Certainly the combination of building shapes, stripes, awnings, etc., that make up Taco Cabana's "total image" consists, at a minimum, of a "combination" of "devices" used to "identify and distinguish" Taco Cabana. It is therefore widely recognized, by the Second Circuit among other courts, that trade dresses can be registered as trademarks, thus precluding any different legal treatment under Section 43(a). See, e.g., *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 843 (9th Cir. 1987); *Stormy Clime*, 809 F.2d at 974; *Blau Plumbing*, 781 F.2d at 608.

Because of the breadth of the definition of "trademark," it is not possible to base a less protective rule for trade dresses on any notion that trademarks are more discrete, smaller, or somehow more manageable. And there could

opments under Section 43(a)). Whatever its scope, however, it "must be read in the context in which it was made." *Air Courier Conf. v. American Postal Workers Union*, 111 S. Ct. 913, 920 (1991). *Bonito Boats* involved a Florida law that ignored the needs of competitors entirely, protecting a product design irrespective of concerns about consumer confusion; and it was those features that contrasted so sharply with the general standards of protection under state law of unfair competition, rendering the Florida law preempted under the federal patent laws. 489 U.S. at 158. Notably, the Court specifically observed that Section 43(a) does embody concerns about consumer confusion. 489 U.S. at 166. As we have shown, that clear focus on consumer confusion under Section 43(a) carries no requirement of secondary meaning.

be no policy justification for doing so in any event: both trade dresses and trademarks can serve the central Lanham Act function of identifying a brand, thereby assisting consumers and protecting business good will. Indeed, giving trade dress less protection than trademarks would in many cases turn the basic policies of the Lanham Act on their head. The "total image" of a product—its trade dress—may be more recognizable, a more powerful identifier of the product, than a more discrete symbol affixed to the product. See USTA Br. 13 ("Indeed, with respect to a chain of restaurants, a visibly unique and consistently presented trade dress might operate even more efficiently than a word mark in identifying and distinguishing one source of food services from another, and in reducing consumer search costs."). At the same time, the more complex the image, the less likely that a competitor would need to duplicate it, as a whole, in order to compete. And a complex combination of features would likely be more costly for its originator to alter if forced to do so by another's appropriation.

For all of these reasons, ever since the Fifth Circuit's *Chevron* decision "brought trade dress law into the mainstream of trademark law" (1 *McCarthy* § 8:2, at 287), it has been the trend in the case law to allow protection of trade dresses on the same terms as unregistered trademarks—on proof of *either* inherent distinctiveness or secondary meaning. See *Restatement* § 16 comment b and reporters' note (citing cases); 1 *McCarthy* § 8:2 (1984 & Supp. 1990). That position is now also the explicitly adopted view of the American Law Institute. *Restatement* § 16 and comment b. It is likewise the view espoused by the United States Trademark Association, the principal professional organization addressing trademark issues, which has participated intimately in legislative efforts (including the 1988 revision of the Lanham Act), and whose members appear regularly on both sides of trademark litigation. USTA Br. 2-3, 10-18. All of these

developments are telling indications of the textual, practical, and policy problems with any attempted distinction between trade dress and trademark protection under Section 43(a).

D. The 1988 Amendments to the Lanham Act Confirm that Section 43(a) Does Not Require Proof of Secondary Meaning for an Inherently Distinctive Trade Dress.

Based on a report prepared by the USTA, Congress comprehensively reviewed and revised the Lanham Act in 1988. Those revisions, and their legislative history, do not in terms address the specific question whether secondary meaning is required under Section 43(a). But they do confirm every piece of the foregoing analysis, indicating that there is no such requirement.³³

First, Congress broadened the language of Section 43(a) to make explicit that the provision prohibits "any word, term, name, symbol, or device, or any combination thereof" that "is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person." New § 43(a), 15 U.S.C. § 1125(a). That language makes clear that a confusingly similar trade dress is actionable under Section 43(a), without necessary reference to "falsity," and undermines any effort, like the Second Circuit's, to base a secondary-meaning requirement on a cramped reading of the "falsity" language of the provision (or on the absence of "likely to cause confusion" language, which is now present).

³³ "Of course, the view of a later Congress does not establish definitively the meaning of an earlier enactment, but it does have persuasive value." *Gozlon-Peretz v. United States*, 111 S. Ct. at 847 (quoting *Bell v. New Jersey*, 461 U.S. 773, 784 (1983)). See also *Seatrain Shipbuilding Corp. v. Shell Oil Co.*, 444 U.S. 572, 596 (1980); *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 380-81 (1969).

Second, the expressed reason for the change, as the legislative history establishes, was not to suggest any narrow reading of the pre-1989 language by comparison. On the contrary, it was to confirm and approve the extensive judicial development under the provision, including its application to trade dress, and to conform the text to the explicit "likely to cause confusion" standard that the lower courts had come to apply.³⁴ That ratification of the breadth and flexibility of Section 43(a) forecloses any attempt to freeze the provision into a pre-1946 mold.

Third, the legislative history of the 1988 amendments strongly reaffirms Congress's dual business- and consumer-protection goals in the Lanham Act.³⁵ The legislative history also expresses particular concerns (outside the Section 43(a) context) about ensuring trademark protection for "small companies and individuals," about "unnecessary legal uncertainty for a U.S. business planning to introduce products or services into the marketplace," and about the "sizable investment in packaging, advertis-

³⁴ See S. Rep. No. 515, 100th Cong., 2d Sess. 40 (1988) (revision of Section 43(a) is designed "to codify the interpretation it has been given by the courts. Because Section 43(a) of the Act fills an important gap in federal unfair competition law, the committee expects the courts to continue to interpret the section. . . . [Section 43(a)] has been widely interpreted as creating, in essence, a federal law of unfair competition. For example, it has been applied to cases involving the infringement of unregistered marks, violations of trade dress and certain nonfunctional configurations of goods and actionable false advertising claims."); 134 Cong. Rec. S5869 (daily ed. May 13, 1988) (statement by sponsor, Sen. DeConcini). See also *USTA Report and Recommendations*, 77 Trademark Rptr. at 426-27.

³⁵ See S. Rep. No. 515, *supra*, at 4 ("Trademark protection is important to both consumers and producers. Trademark law protects the public by making consumers confident that they can identify brands they prefer and can purchase those brands without being confused or misled. Trademark laws also protect[] trademark owners. When the owner of a trademark has spent considerable time and money bringing a product to the marketplace, trademark law protects the producer from pirates and counterfeiters.").

ing and marketing" that introduction of a product may entail. S. Rep. No. 515, *supra*, at 5. These concerns reconfirm that basic trade dress protection should be available from the time an owner begins "bringing a product to the marketplace." *Id.* at 4; see also *USTA Report and Recommendations*, 77 Trademark Rptr. at 387.

Finally, Congress explicitly extended to any violation of Section 43(a) the basic Lanham Act remedial provisions whose text previously covered only registered trademarks. See new §§ 32, 34-36, 15 U.S.C. §§ 1114, 1116-1118. The expressed aim of the amendments was to equalize the fundamental protections for registered and unregistered marks. See S. Rep. No. 515, *supra*, at 40. These steps confirm that Section 43(a) is properly read to provide protection in accord with the standards for registration in Section 2. All of these aspects of the 1988 legislation thus underscore the conclusion that an inherently distinctive trade dress may be protected under Section 43(a) without proof of secondary meaning.³⁶

³⁶ In light of the passage of the 1988 amendments (and petitioner's failure to argue the principal legal issue here), the Court may wish to dismiss the writ as improvidently granted. This case involves Section 43(a) as it read prior to 1989. But Congress has now substantially amended not only that provision but the Lanham Act as a whole, confirming the analysis that demonstrates the sufficiency of a showing of inherent distinctiveness under Section 43(a) and answering the only arguments even suggested (by the Second Circuit and PLMA) in support of a contrary reading of the pre-1989 version of Section 43(a). The 1988 amendments thus make any interpretation of the pre-1989 provision at issue here largely moot.

CONCLUSION

The judgment of the court of appeals should be affirmed.

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STATUTORY APPENDIX

Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1982), prior to its being rewritten in 1988, provided:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

Section 43(a) of the Lanham Act was rewritten by Section 132 of the Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3946, to read as follows:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which—

(1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship,

or approval of his or her goods, services, or commercial activities by another person, or

(2) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

Supreme Court, U.S.
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No. 91-971

IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

v.

TACO CABANA INTERNATIONAL, INC., *et al.*,

Respondents.

**On Writ of Certiorari to the United States
Court of Appeals for the Fifth Circuit**

REPLY BRIEF ON THE MERITS

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SUMMARY OF THE ARGUMENT

The Fifth Circuit presumes from the appearance of it that Respondents' "whole business" image trade dress is protectable and ignores its demonstrated lack of secondary meaning. The Second Circuit requires proof of "secondary meaning" because Section 43(a) of the Lanham Act does not protect and permits copying where there is no actual distinctiveness after long use. There can be no actionable false designation of origin where the "original" origin is not publicly recognized or registered.

The cursory language of Section 2 of the Lanham Act does not inclusively or preclusively define the standards for unregistered and complex "whole business" trade dresses. It defines what must be so in order for an examined mark to obtain the benefits of registration denied to unregistered marks. Section 43(a) is intended by Congress to be the vanguard of the Lanham Act for developing the federal law of unfair competition.

The conflict between the Fifth and Second Circuits may be resolved and the criticisms of Respondents and the USTA of the Second Circuit's rule fully accommodated by minor refinements and extensions to the Second Circuit rule which recognize all interests and protect the Congressional policies involved.

Respondents' effort to get protection for their "whole business" image as a trade dress threatens to make the litigation process too subjective and uncertain and seriously threatens to undermine the Congressional policies and interactions of trademark law, copyright and patent law and the law of competition.

ARGUMENT

I. The Second Circuit's Approach Is More Sensible And Realistic Than The Fifth Circuit's.

A. The Conflict Between the Circuits is Clear.

The narrow legal issue in this case is whether secondary meaning must be proved to have a finding of inherent distinctiveness. The Second Circuit, in *Stormy Clime*¹ and *Murphy*, allows inherent distinctiveness, but only where secondary meaning is proved to exist. The Fifth Circuit, in *Chevron*, allows inherent distinctiveness, with or without proof of secondary meaning. The Fifth Circuit, in *Taco Cabana*, allows inherent distinctiveness, even where secondary meaning is proved not to exist. And the Ninth Circuit, in *Fuddruckers*, suggests the impossibility of having inherent distinctiveness, if secondary meaning does not exist.²

¹ *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971 (2d Cir. 1987), *Murphy v. Provident Mutual Life Ins. Co.*, 923 F.2d 923 (2d Cir. 1990), *cert. denied*, 112 S. Ct. 65 (1991), *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 702 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982), *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5th Cir. 1991), *cert. granted*, 112 S. Ct. 964 (1992), and *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987).

² Although its holding is superficially compelling (see footnote 10), *Chevron* is actually a badly decided case. The trade dress upheld as inherently distinctive in *Chevron* had been in use since 1971, approximately six years before the lawsuit. 659 F.2d at 699. The District Court found that, after all that time, the trade dress still did not have any secondary meaning. *Id.* at 702. The Fifth Circuit ignored this finding and its implications, and instead wrote, "... there is no reason to require a plaintiff to show consumer connotations associated with such arbitrarily selected features." *Id.* (emphasis added). (How the features are selected is immaterial. The requirement is that they be arbitrary and not in the lay sense of that word, but as that word is used in trademark law.) The Fifth Circuit went on to duck evaluation of the arbitrariness of the trade dress by suggesting that the principle issue was not that inquiry, but was instead whether the public was confused. 659 F.2d at 703. Yet Judge Learned Hand explained in *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299 (2d Cir. 1917), that, without actual distinctiveness, there cannot be confusion. The Fifth Circuit also "found" a likelihood of

The Second and Ninth Circuits have the more sensible view of it. This is especially true if the trade dress has been in use for some time.

B. Actual Distinctiveness Should Be Proved For a Trade Dress That Has Been in Use.

As the cases indicate, the relationship between inherent distinctiveness and secondary meaning is not well-understood. Much of the problem is one of language, as Respondents suggest at 20. There is confusion in the cases on what the key words mean.

The concept of secondary meaning in cases involving inherently distinctive trade dresses is not properly secondary meaning at all. It is primary meaning.³ If a new trade dress is fanciful or arbitrary, no secondary meaning as a trademark is necessary because, by definition, the trade dress has no primary meaning that needs to be overcome by the development of a secondary meaning as a mark. However, for such a trade dress, there is still the need to acquire and prove primary meaning as a mark, that is, to become actually and demonstrably recognized by the public as a mark or symbol of the seller and only the seller; in other words, to become actually distinctive.⁴ Actual distinctiveness can exist as either primary meaning, in the case of fanciful or arbitrary marks,

confusion after the District Court had found, as a matter of fact, there was no likelihood of confusion. *Id.* and 659 F.2d at 702.

³ Even the nomenclature "inherently distinctive" is a poor choice of words. What is actually meant is "presumably distinctive" or "presumed distinctive."

⁴ Without public recognition as an identifier, there is little to be protected under the Lanham Act. Realizing what it means for Section 43(a) of the Lanham Act to preclude a "false designation" of origin, one astute commentator has explained the problem this way: "Unless the public has come to know a particular mark as indicating a particular source of origin, a finding of the requisite falsity would be anomalous since there would be no standard against which to measure such falsity." Germain, *Unfair Trade Practices Under Section 43(a) of the Lanham Act: You've Come a Long Way, Baby — Too Far, Maybe?*, 49 IND. L.J. 84, 103 (1973).

or as secondary meaning, in the case of other marks. Whether as primary meaning or as secondary meaning, actual distinctiveness must be proved.

The issue raised by these cases is whether there should be a requirement of proof of actual distinctiveness for a trade dress claimed to be fanciful or arbitrary that has been in use for some time.⁵ In this case, a trade dress, which is claimed to be fanciful or arbitrary (i.e., presumably distinctive) and which has been held to be so, has been in use for more than 10 years and it is still not actually distinctive. It is not recognized by the public as a trademark at all in its general area of use.⁶ The obvious suggestion here is that a trade dress in use for so long cannot be inherently or presumed distinctive if it is not actually distinctive.

⁵ When a trade dress has been in use for some time, there is no reason to simply guess about whether it should be presumed distinctive. The marketplace has the answer.

⁶ Respondents argue a finding of no actual distinctiveness in Texas is not dispositive. Res. Br. at 15, 21 and 25. This is incorrect. First, selection of the State of Texas for their area of recognition was of Respondents' own choosing. They drafted the Jury instruction on "secondary meaning" (a fact suggesting Respondents believed their complex trade dress was not so inherently distinctive). Second, restaurant patrons are notoriously widespread travelers. See *Fuddruckers*. So it is not just a question of where Taco Cabana's restaurants are located. It is a question of where their patrons come from. Third, assuming Respondents' narrower and incorrect view of the relevant geography, it is then the case that Section 43(a) protection may not be granted where there is no actual distinctiveness or a federal registration giving the broader protection. Two Pesos went into Texas cities where Respondents were not located or planning to go. JA II 3-6. After more than a decade of staying in San Antonio, Taco Cabana then came after Two Pesos, entered Two Pesos' marketing areas and recovered damages for infringement in those areas — clear error. Fourth, absent a federal registration, protection may not be afforded in other areas where a mark owner is not doing business.

C. The Fifth Circuit Relies Upon Unfounded Presumptions Instead of the Facts Available.

It is often difficult to determine, just by looking at it, whether a complex trade dress is in fact inherently distinctive.⁷ That is, in the Fifth Circuit's view of it, it is often difficult to determine whether a presumption of actual distinctiveness should be made for a trade dress, independently of what has already occurred in the marketplace. This difficulty is particularly troublesome when the claimed trade dress is the image of a competitor's "whole business."⁸ Here, Respondents' trade dress is descriptive of an actual restaurant. That is one of its primary meanings.⁹ For these reasons, proof of secondary meaning is required for Respondents' trade dress.¹⁰

⁷ The USTA concedes this point. Am. Br. at 14. See also *Turtle Wax, Inc. v. First Brands Corp.*, 781 F. Supp. 1314 (N.D. Ill. 1991), which expressly supports this view. In such contexts, unfounded presumptions of distinctiveness should not go unrebutted by contrary available evidence.

⁸ This is so for several reasons. First, trade dresses that are complex almost by definition include functional and communicative attributes which are often needed or properly wanted by other competitors in order to compete effectively. Unlike fanciful and arbitrary word marks, trade dresses are seldom "wholly and exclusively used" for identificational purposes. They entail many other useful and needed aspects. Secondly, fanciful and arbitrary word marks have no function or purpose at all, except to identify source. Therefore, they offer no inherent competitive advantages to other competitors, other than the goodwill that develops in them. Fanciful and arbitrary word marks are simply tacked onto products like a name; protection of them does not improperly hinder competitors at all because functional and communicative aspects of the businesses remain available for all to use.

⁹ Others are that its Mexican decor describes (a) the type of food sold in the restaurants and (b) the geographic origin of that type of food. How a complex "whole business" trade dress including such a decor could be viewed as inherently distinctive is a point that bothers the USTA as well. See Am. Br. at 17.

¹⁰ One interesting reading of the cases in this context is as follows: In *Chevron*, protection was granted for a two-dimensional label that was simple and much like what people think of as a trademark. In *Stormy Clime*, it was denied for the entire appearance of a raincoat. The public thought the raincoat was a raincoat, not a

The Fifth Circuit's point of view does not adequately take these considerations into account. Neither did the Jury.¹¹ The Fifth Circuit's frame of reference is *a priori* and theoretical, much like that of a trademark examiner in the Trademark Office considering an application for a word mark. The question posited is whether there will be public recognition of the trade dress as an exclusive identifier of the seller. The answer is arrived at solely by considering whether the trade dress should be presumed to have such recognition, based on simplified inferences derived from its appearance. Whether there is actual distinctiveness or not is ignored.¹²

D. The Second Circuit's Approach Makes Use of All Available Evidence.

However, the frame of reference of the Second and Ninth Circuits and that of actual litigation is much different. Real life experience is readily at hand. The question of inherent distinctiveness is considered *ex post* and as a practical matter. That is, from its actual use in the marketplace for some time, is a trade dress, which is not registered, but claimed to be inherently distinct-

trademark or symbol of its owner. The idea that emerges from these two cases and others is that if a trade dress consists of too many different elements, including some that are functional, some that are commonplace, and others that are descriptive, or if the trade dress is also understood to be something else as well by the public, such as a restaurant or a raincoat, then it should not be protectable. It includes too much and is descriptive or generic. Only more limited and segregated aspects that are like symbols or marks stand much of a chance to be perceived by the public as such. Overreach kills.

¹¹ This was so because the Jury instruction on inherent distinctiveness was wholly inadequate, as the USTA suggests. See Am. Br. at 5 and JA I 86.

¹² Often a presumption of distinctiveness is made solely on the basis that, in the eye of the beholder and when viewed as a whole, the trade dress is not primarily or predominately functional or descriptive. See, e.g., *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 935 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990). Analytically, this approach is unsound because it simply begs the question, as was done here.

tive, really distinctive in fact? This is a legitimate and proper inquiry when the answer is available. It is one investigated by the Second Circuit, but ignored by the Fifth and some other circuits.

The Second Circuit also looks to the appearance of the trade dress, but goes further and requires empirical proof, derived from the history of use, that the trade dress claimed to be inherently distinctive is actually distinctive in fact. *Murphy and Stormy Clime*. Unlike the Fifth Circuit, the Second Circuit tests the presumption with the available empirical evidence, rather than ignores such evidence. In this case, the Fifth Circuit upheld the presumption, but did so in the face of a finding that the empirical evidence clearly refuted the presumption. This is obviously an absurd result.

The Second and Ninth Circuits' approach is the most sensible and the most in accord with Congressional intent regarding trademark law, copyright and patent law and competition policy. The Second Circuit's approach is also the analysis most amenable to further refinement and development, given the criticisms of it.

II. The Criticisms Of The Second Circuit's Requirement Of Actual Distinctiveness Are Minor Or Correctable.

Respondents and the USTA raise essentially four criticisms of the Second Circuit's requirement of proof of "secondary meaning" to establish inherent distinctiveness. The first is that the requirement of secondary meaning introduces an asymmetry into trademark law. It would apply to trade dresses, but not to registerable word marks, such as ESSO®, EXXON® and KLEENEX®.¹³ However, these word marks, unlike most complex trade dresses, are readily perceived to have the capacity to be inherently distinctive because they are obviously and wholly fanciful. Such is seldom the case for a trade dress.¹⁴

¹³ This criticism is raised by Respondents at 42 and by the USTA in its *amicus* brief at 10 and 14.

¹⁴ See note 7, *supra*.

Symmetry for its own sake has little to recommend it. Moreover, the contention of existing symmetry is overstated. Word marks that are fanciful or arbitrary are easily registerable; complex trade dresses like the present one are not.¹⁵ Also, when word marks are registered, they become the subject of application and subsequent review and approval or disapproval by a skilled trademark examiner. Complex trade dresses are not. Word marks that are registered are the subject of public notice requirements, typically met by publication. Complex trade dresses are not. They become marks, if at all, by private fiat, with an occasional judicial declaration after the fact . . . if there is a dispute. A less symmetrical arrangement is difficult to imagine.¹⁶

Respondents argue that the statutory standards for a Trademark Office examiner to determine registrability on the Principal Register dispositively apply to the present complex trade dress for which there has been no application for registration.¹⁷ The effort is presumptuous at best and actually, incorrect or ill-advised.¹⁸ The very language of Section 2 of the Act itself

¹⁵ See *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (C.C.P.A. 1982), for an example of the troubled and limited reach of Trademark Office registration practice regarding relatively simple trade dresses under the Lanham Act.

¹⁶ A registered word mark placed on the Principal Register without a required showing of secondary meaning or actual distinctiveness is entitled only to a rebuttable presumption of inherent distinctiveness. See section 14 of the Act, 15 U.S.C. § 1064, and, for examples, *GTE Corp. v. Williams*, 904 F.2d 536, 538 (10th Cir.), *cert. denied*, 111 S. Ct. 557 (1990), and *Dan Robbins & Assoc., Inc. v. Questor Corp.*, 599 F.2d 1009, 1013-14 (C.C.P.A. 1979).

¹⁷ See Res. Br. at 29-36. Also see Section 2 of the Act, 15 U.S.C. § 1052.

¹⁸ First, by their language, the criteria of 15 U.S.C. § 1052 are nothing necessarily more than those which must be met for a mark to obtain (a) presumptive validity throughout the United States and not just in areas where it is used (Section 7, 15 U.S.C. § 1057), (b) the prospect of incontestability in five years (Section 15, 15 U.S.C. § 1065), and (c) constructive notice of ownership to the public by being on the Register (Section 22, 15 U.S.C. § 1072). These desirable attributes are not available to unregistered marks. Registered and unregistered marks are therefore properly treated differently in these and collateral regards. Second, the language of Section 2 does not definitively exhaust

expressly provides that it pertains only to when registration may not be refused; nothing more and nothing less. If Congress had necessarily wanted those precise criteria to apply to unregistered marks, which were clearly contemplated by the Act, it could have said so on several occasions, most recently when the Act was amended in 1988. The fact is, it did not.¹⁹

A second criticism of the Second Circuit's requirement of distinctiveness in fact is the contention that, under the Fifth Circuit's analysis, the law is well-enough rendered; more is not needed as Respondents argue at 29-42. In fact, in the area of trade dress, the law is not at all well-rendered. It is not even adequately rendered. The Fifth Circuit's analysis cannot and does not address or deal with the difficulties at hand. Nor does it address the competing policy considerations underlying the conflict between the circuits.²⁰ The Second Circuit's actual distinctiveness requirement creates problems for users of new would-be marks, but is a major and important step in the right direction.

A third criticism of the Second Circuit's approach is that, with inherently distinctive marks, there is no primary meaning which has to be overcome by the development of secondary meaning.

all rights and limitations regarding marks to which that language is expressly not applicable ("No trademark . . . shall be refused registration . . ." applies only to marks for which registration is sought.). Third, why should a set of such criteria that, if met, affords specific and additional rights for some marks (those which are more obviously registerable), be required to be met to a tee for putative marks of a demonstrably different character (see footnotes 8, 10, 28 and 37 herein) not accorded those rights? Fourth, Section 43(a) is the experimental vanguard of the Lanham Act. A catcher for the developing federal common law, as it were. Its dynamic in that regard should not be subject to the cryptic straight jacket Respondents propose.

¹⁹ In the 1988 amendments, Congress did not address trade dress issues at all, including the present conflict between the circuits. The permissible inference here is that such matters were to be left to the courts. See n.34 of Res. Br. at 48 for tangential support on this point.

²⁰ For a discussion of these policies, see Section IV, *infra*.

Therefore, the requirement of proof of "secondary meaning" is unnecessary.²¹ This is just a matter of semantics. The primary meaning which develops for an inherently distinctive mark that has no meaning at the outset is that of exclusively identifying a single source or seller in the mind of the public. This is not to say, however, that proof of such distinctiveness in fact should not be required for a trade dress already in use and claimed to be inherently distinctive. What the Second Circuit is really saying is that primary meaning as a trademark must be proved for such a trade dress to be protected as inherently distinctive.

A fourth criticism is one that particularly bothers Respondents. It is that the Second Circuit approach does not realize that some reasonable amount of time is actually necessary in order for the public to come to recognize that even a truly fanciful or arbitrary trade dress is existing and intended to serve as a mark. Consequently, to require proof of distinctiveness in fact during this interim and reasonable incipency period, under the Second and Ninth Circuits' analysis, is to preclude Section 43(a) protection where it really should be afforded.²² That, in turn, imposes an unfair prospect of theft, financial loss or both on the developer of a truly fanciful or arbitrary trade dress. This problem is at the heart of the conflict between the circuits.

First of all, this criticism applies only at the outset or the incipency of use of a trade dress. Secondly, it can be addressed and corrected by the minor refinements of the Second Circuit's analysis suggested in the next section. Those refinements strike a workable compromise between *Chevron* and *Stormy Clime* and accommodate these criticisms.²³

²¹ For this criticism, see the USTA Am. Br. at 5. For their part, Respondents understand this criticism is only semantical. See Res. Br. at 20.

²² This criticism is raised in Res. Br. at 16 and 38-39.

²³ The goal is to avoid capricious application of various notions of inherent distinctiveness in ways that would undermine the federal policies involved and

III. A Slightly Refined Restatement Of The Second And Ninth Circuit Analysis Is A Practicable And Workable Solution To The Conflict Between The Circuits.

The solution to the incipency problem is simply not to require proof of actual distinctiveness for a trade dress that is presumably inherently distinctive, during a reasonable, but brief period at the outset, in order to establish liability. Instead, all that is needed is to limit damages during such period, when liability is found, to some part of the costs of developing and promoting the mark and any damages attributable to delay in having the mark recognized in the marketplace.²⁴

The suggestion here is not that of "secondary meaning in the making" endorsed by the New York District Courts, e.g., *Jolly Good Industries, Inc. v. Elegra Inc.*, 690 F. Supp. 227 (S.D.N.Y. 1988).²⁵ The suggestion here is not anything like that. It is, instead, adoption of the presumption of distinctiveness of *Chevron*, if the appearance of the trade dress genuinely indicates it is fanciful or arbitrary, until a reasonable time has passed to have the trade dress used in the marketplace to see if it develops actual

recall to mind the pornography standard of Justice Stewart of "I know it when I see it." *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964).

²⁴ Damages for lost profits from diverted customers should not be recoverable during this incipency period because the prospect of confusion — which is the proper test here under Section 43(a) — is more deferred than usual and there is no possibility, during the incipency period, for there to be any actual confusion and therefore any diversion of customers.

²⁵ That notion reaches beyond the purview of what the Lanham Act can lawfully protect because if a putative mark is not presumed from its appearance to be sufficiently distinctive to be inherently distinctive and it presently has no secondary meaning, then it is not a mark at all and may not, therefore, be protected under the Act. See *Cicena Ltd. v. Columbia Telecommunications Group*, 900 F.2d 1546, 1550-51 (D.C. Cir. 1990) and *Black & Decker Mfg. Co. v. Ever-Ready Appliance Mfg. Co.*, 684 F.2d 546 (8th Cir. 1982).

distinctiveness, as expected.²⁶ In other words, the presumption becomes rebuttable, but only after a brief and reasonable incipency period.²⁷

In effect, this means that, for an incipency period, trade dresses thought to be inherently distinctive are to be evaluated under, what in substance is taken to be the Fifth Circuit's *Chevron* analysis, but, after such a period, distinctiveness in fact must be proved according to the Second Circuit's analysis in *Murphy* and *Stormy Cline*. The Second Circuit is most sensible in wanting, as an additional criterion, proof of actual distinctiveness, but should only require such proof in circumstances where distinctiveness in fact has had a reasonable opportunity to develop.²⁸

²⁶ How long that period is must be determined from the circumstances and the nature of the trade dress, assuming that it is genuinely inherently distinctive. The approximately six years in *Chevron*, and the more than ten years in this case are clearly and emphatically too long to be reasonable incipency periods. See *Turtle Wax*. For trade dresses that really are inherently distinctive and that are intended, promoted and noticed to the public from the outset of use to be marks, a year or so at the most should normally do.

²⁷ As an empirical matter, it is likely that it takes longer for secondary meaning to develop for a complex trade dress — if it develops at all — than it does for primary meaning to develop for a fanciful word mark, all other things being equal. In the Fifth Circuit, it is presumed that actual distinctiveness exists at the outset for a truly fanciful word mark such as EXXON[®], for example, regardless of how or whether it is even displayed and promoted. However, this is plainly incorrect. See *In re DC Comics, Inc.*, 689 F.2d 1042, 1050-51 (C.C.P.A. 1982). From the time of the decision to start using EXXON[®] to its actual recognition by the public as a word mark — by being placed on signs above gas stations and by being seen and heard about by the public frequently enough to be actually recognized as a symbol of its owner — undoubtedly took some significant time. Much had to happen. The process is not instantaneous. Some significant amount of time is obviously necessary for actual distinctiveness to develop, even for a mark that is presumably distinctive.

²⁸ A useful way to think about whether a trade dress should be presumed to be inherently distinctive for an incipency period is to consider what it can not be or include. For example, to be truly fanciful or arbitrary, the trade dress should not include within it one or more of the following elements, if any such element(s) comprises a significant or substantial part of the visual appearance of the trade

Additionally, and as a second refinement, a notice provision should be required, both during and after the incipency period, to assure that a trade dress claimed to be inherently distinctive is intended and promoted as a mark and that the public is thereby informed of these facts.²⁹ The trade dress should include within it notice to the public that it is intended and claimed by its user to be a trademark.³⁰

This notice requirement aids promotion of a trade dress claimed to be inherently distinctive and assures that it is identified to the public as being intended as a mark. Such notice alerts would-be competitors to the claim of ownership in the trade dress. It also minimizes the prospect that such a mark will be used as an

dress: (a) any element that is descriptive of any characteristic or the origin of the product or service sold in conjunction with the trade dress, (b) any generic element, (c) any functional element, (d) any element that is common, ordinary, usual or typical to that kind of trade dress, or (e) any combination of any of such elements.

²⁹ This is an important point. Cf. *In re Owens-Corning Fiberglas Corp.*, 774 F.2d 1116 (D.C. Cir. 1985) (substantial promotion of the actual trade dress as a mark) and *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378 (9th Cir. 1987) (no promotion of the trade dress as a mark). The key issue on inquiring whether there is actual distinctiveness is not the extent of promotional efforts, but their effectiveness. *Aloe Cream Laboratories, Inc. v. Milsan, Inc.*, 423 F.2d 845, 850 (5th Cir.), cert. denied, 398 U.S. 928 (1970).

³⁰ By analogy, such notice would serve the same immediate functions as copyright and registration symbols and, if used from the outset, would also constitute some noteworthy proof that a subsequent action by the user is not a competitive ploy to destroy a competitor and impede competition in the marketplace. Suggested notice language for trade dresses generally might read:

The appearance (or shape) of this _____ is intended and claimed to be a trademark. It may not be copied or duplicated without the prior written consent of the owner.

afterthought in litigation to club a competitor and thereby injure competition.³¹

By refining the analysis and conclusions of the Second and Ninth Circuits on the need for "secondary meaning," a coherent and workable rule can be developed to deal with the problem of inherent distinctiveness presented. This modified Second Circuit rule also addresses the larger concerns raised because it protects and preserves the policy of competition and the policies and balances underlying copyright, patent and trademark law. It does so by precluding the exclusive appropriation and protectability of commercial concepts, in the form of "whole business" images, by assuring that trademarks remain merely commercial road signs, and by assuring that trademark law remains a handmaiden of competition and does not become its executioner.

IV. The Fifth Circuit Rule Of Protecting Complex "Whole Business" Trade Dresses That Are Not Actually Distinctive Would Undermine The Policies Of Competition, Trademark Law, And Copyright And Patent Law.

A. The Litigation Process Would Become Too Capricious and Subjective.

Defense counsel in trade dress cases often attempt to prove that disputed trade dresses lack distinctiveness. It is an important and key defense. When a factual finding based on such proof is ignored by the court and a contrary presumption is upheld, the question of whether a trade dress is inherently distinctive becomes entirely too subjective. Courts and juries are left too much to their own devices and prejudices. There is no effective check on anticompetitive purpose or result. Nor is there a check on the impact on copyright and patent law.

³¹ There is no evidence in this case that Taco Cabana ever provided such notice, unlike the situation in *Fuddruggers*, where a sign was posted on the inside and outside of each restaurant, stating that the appearance of the restaurant is proprietary and is not to be photographed or copied.

As in this case, competitors are unable to make informed judgments on the identity and protectability of trade dresses. Uncertainty reigns.³² "Whole business" image concepts become protectable and trademarks are no longer merely commercial road signs.³³ Instead, trademarks become symbols of judicially established monopolies. These problems auger for clarification of the law by the Court.

B. Important Congressional Policies Would Be Undermined If the Fifth Circuit's Rule Is Allowed to Stand.

One of Congress' intentions, in enacting the Lanham Act, was to defeat monopolies and stimulate competition by the carefully limited protections afforded by trademarks.³⁴ Three important Congressional policies are involved here. The first is the role and function established by Congress for trademarks in the national economy. The second is the strong federal policy favoring free competition, and the third is the federal patent and copyright policy of permitting "imitation and refinement through imitation"

³² Nobel Laureate Milton Friedman often told students at the University of Chicago that a principal reason for America's relative economic success was not that we were necessarily more clever or had more resources than Europeans and others, but that we had a more stable legal environment in which to make longer-run economic decisions.

³³ Trademarks are not copyrights intended by Congress to protect creative efforts such as literature, music, and the like, nor are trademarks similar to design patents, utility patents or other intellectual property intended to protect different types of invention. Trademarks are mere commercial roadsigns that are not intended to protect "creative" effort. In this case, Respondents are attempting to make trademarks into something they are not. See W. M. Landes and R. A. Posner, *The Economics of Trademark Law*, 78-3 THE TRADEMARK REPORTER 267, 270-271 (May-June 1988). See also *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429-30 (7th Cir. 1985), *cert. denied*, 475 U.S. 1147 (1986), Justice White dissenting, and *W.T. Rogers Co., Inc. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985), which also recognizes that trade dresses are potentially a proper subject of design patents.

³⁴ See S. Rep. No. 1333, 79th Cong., 2d Sess. 3-4 (1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1274, 1274-75.

where patent and copyright protection are not allowed. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Respondents propose to upset the balances established by Congress between and within these three policies by expanding trademark law out of its traditional domain so as to injure and impair competition and afford protection where copyright and patent law intend to preclude it.³⁵ All three Congressional policies would be undermined. No other commensurately significant Congressional or national policy would be properly served.

1. The anticompetitive consequences

Respondents are now very circumspect about what they say they are asking this Court to protect. "Trade dress protection" are the words now chosen. The protection of a complex trade dress that includes Respondents' "whole business" image as a "creative concept" is really what Respondents are proposing on the facts of this case.³⁶ The proposal has serious anticompetitive implications.

³⁵ Independently of Respondents, the pressures in this quarter are considerable, in part, because Congress has not adopted, in the view of some, a sufficiently comprehensive scheme of design protection law. As one concerned, but insightful commentator has put it:

The *Bonito* opinion reminds us that Congress has yet to enact a satisfactory design protection law and that, should a case of configuration protection under Federal Trademark Law reach the Supreme Court, the scope of protection granted may be considerably less than that afforded by *Morton-Norwich*. Must we await such a decision before suitable legislation is enacted?

(J.B. Pegram, *Trademark Protection of Product and Container Configurations*, 81-1 THE TRADEMARK REPORTER 1, 29 (January-February 1991).

³⁶ See JA I 222-226 which is a several-page listing of trial testimony references where the testimony related to Taco Cabana's and other restaurants' general total restaurant "concept" instead of trade dress. That is the factual record in this case. As the case has proceeded up through the circuit, Taco Cabana has become increasingly quiet about its restaurant concept heard so much about in the trial court, but that is what is involved on the record.

Had some court early on concluded that the McDonald's fast-food hamburger restaurant "concept" or "trade dress" was protectable as an "entire business" trademark, the competition McDonald's now faces, provided by What-A-Burger, Wendy's, Burger King and others, with its attending benefits to the public, would not exist.³⁷ Fortunately, neither McDonald's, nor the law took such an anticompetitive turn. Instead, McDonald's registered the golden arches to become its trademark and did not press the law. Taco Cabana could have and should have done as much.³⁸

The desire of businessmen to do away with their more erstwhile competitors antedates the earliest antitrust laws. It is an essential part of the unrestrained human condition. Unfortunately, all that is needed to have both competition and trademark policy seriously and widely compromised is to have a competitor or two in each industry segment exclusively appropriate a few key commercial concepts under the Fifth Circuit's decision in *Taco Cabana*.

³⁷ The universe of available trade dresses is far more finite than the universe of available trademarks of other types, contrary to what is often supposed. Cf. *Chevron*. This is particularly so in specific market segments, e.g., upscale Mexican fast-food restaurants. The functional and communicative attributes involved in the trade dresses in such market segments make them needed and desired by most competitors in those segments and assure similarity of appearance from one competitor to the next. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION (Tent. Draft No. 2, 1990) (approved by the membership of the American Law Institute, May 1990) § 13, comment b, precluding inherent distinctiveness for trade dresses in such situations.

³⁸ There is no reason Taco Cabana could not have adopted something analogous to McDonald's arches to symbolize and promote its commercial identity, assuming that Taco Cabana felt that its prominently displayed trade name was insufficient. Taco Cabana's motive here is suspicious also because there is no indication that, before this dispute with Two Pesos arose, Taco Cabana ever considered its restaurants' appearance to be a trademark at all.

Trademarks are intended to be a handmaiden of competition, not its executioner.³⁹

2. The untoward consequences for copyright and patent law

The protection of complex "entire business" trade dresses under trademark law would also undermine the federal policy of patent and copyright law to allow "free access to copy whatever the federal patent and copyright laws leave in the public domain." *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964), quoted with approval in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 153 (1989).

"Creative" commercial concepts, not protectable by design patents, should not be protected by trademark law.⁴⁰ There is a "strong federal policy favoring free competition in ideas which do not merit patent protection." *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969).

3. The protection of "whole business" concepts is best left to Congress.

Where multiple and well-established Congressional policies interface and interact as Congress intended, courts should not, in effect, create new law that compromises those policies and destroys those balances and interactions. That is not a proper role for the courts.

³⁹ This prospect is the concern the Private Label Manufacturers Association expressed in its *amicus* brief filed in this action. If liability may be premised on a claim of inherent distinctiveness, without proof of secondary meaning (*i.e.*, meaning as a trademark), then competition is unduly and seriously threatened.

⁴⁰ The issue crops up because Taco Cabana's trade dress does not qualify for the protection of a design patent. See 35 U.S.C. § 171. It contains too many disparate and unqualifying elements.

In the last analysis, whether trademark law should be expanded to protect "creative" "whole business" concepts now beyond the reach of the patent and copyright laws is only for Congress to decide. This Court should resolve the circuit conflict along the lines suggested by Petitioner and by so doing preserve and protect these policies and the balances between them.

V. Taco Cabana's Trade Dress Is Not Inherently Distinctive Or Even Close To Being So.

The bottom line on the merits in this action is the same as that so aptly put by the Ninth Circuit in *Fuddruckers*:

Fuddruckers claims trade dress protection for the impression created by a collection of common or functional elements of restaurant decor. Such an overall impression may receive protection, but it is simply not the sort of arbitrary or uncommon trade dress that might qualify as inherently distinctive.

826 F.2d at 843-44 (emphasis added).⁴¹

Where it is truthfully admitted and avowed to by all—including Taco Cabana's founder and chairman, Felix Stehling—that everything in a Taco Cabana restaurant is functional, except for the Mexican decor and the plants,⁴² it is understandable that Taco Cabana's trade dress is unrecognized by the public as a mark after more than 10 years of use. Too many functional and descriptive elements are involved for it to even be recognized by the public as a mark. It is recognized only as a restaurant which is what it is.

⁴¹ The Fuddruckers trade dress is substantially more novel and unusual than Taco Cabana's. 826 F.2d at 839-40. In some key and substantial aspects, Fuddruckers' trade dress is actually and deliberately *dysfunctional* for the sake of appearance. Here, as Felix Stehling put it, a Taco Cabana restaurant is simply a cross between a Taco Bell and a traditional sit-down restaurant. JA I 136-137.

⁴² See, *e.g.*, JA I 129 and 141.

VI. Conclusion.

Absent such distinctiveness in fact, Taco Cabana's trade dress claim must fail for the reasons and analysis Two Pesos has provided. Rendition of judgment in favor of Two Pesos is therefore called for.

RESPECTFULLY SUBMITTED.

April 14, 1992

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Supreme Court, U.S.

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

—v.—

TACO CABANA INTERNATIONAL, INC.,
and TACO CABANA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FIFTH CIRCUIT

**BRIEF OF AMICUS CURIAE
THE UNITED STATES TRADEMARK ASSOCIATION
IN SUPPORT OF RESPONDENTS**

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IN SUPPORT OF RESPONDENTS**

INTRODUCTION

Having obtained written consent of the parties pursuant to Rule 37.3 of the Rules of this Court,¹ The United States Trademark Association ("USTA") submits this brief as amicus curiae. USTA believes the holding by the Court of Appeals for the Fifth Circuit—that inherently distinctive trade dress may be protected without proof of secondary meaning—is a correct statement of the law and, to that

¹ The consents are filed with the Clerk contemporaneously with this brief.

extent only, supports respondents' position on the question for which certiorari was granted.

Based on the Circuit Court's factual recitation of the elements of trade dress it deemed protectable, however, it appears that at least certain elements of Taco Cabana's restaurant decor may have communicated the message that Taco Cabana featured Mexican cuisine. This raises a question as to whether Taco Cabana's trade dress was inherently distinctive. USTA is not familiar with the details of Taco Cabana's "Mexican" decor apart from the Fifth Circuit's general description, or with the specific facts on which the jury relied. It therefore does not take a position as to whether the Fifth Circuit's decision should be affirmed.

Instead, USTA's purpose in filing this amicus brief is to ensure that the apparent tension between the potentially descriptive nature of Taco Cabana's Mexican motif, the jury finding that it lacked secondary meaning, and the actual holding below, do not obscure or undercut the Fifth Circuit's correct statement that the owner of an inherently distinctive trade dress need not be required to prove secondary meaning.

STATEMENT OF INTEREST OF THE AMICUS CURIAE

USTA is a not-for-profit corporation whose more than 2,400 members have a special interest in trademarks. They include trademark owners, law firms, advertising agencies, package design firms and professional associations from the United States and 90 countries. All share the goal of emphasizing the importance of trademarks, trademark protection and promoting an understanding of the essential role trademarks play in fostering effective commerce, communication, and fair competition.

USTA was founded in 1878, in part to encourage the enactment of federal trademark legislation after this country's first trademark act was declared unconstitutional. Since that time, USTA has been instrumental in making recommendations and providing assistance to legislators in connection with each subsequent trademark act, or amendment thereof,

including the Trademark Law Revision Act of 1988 ("TLRA"). See 134 Cong. Rec. S16974 (daily ed. Oct. 20, 1988) (statement of Sen. DeConcini). One significant revision included in the TLRA was the amendment of Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The purpose of the amendment was to acknowledge the evolution of Section 43(a) since 1946 "into a Federal law of unfair competition," 135 Cong. Rec. H10422 (daily ed. Oct. 19, 1989) (statement of Rep. Moorhead), protecting, *inter alia*, unregistered trademarks and trade dress. See S. Rep. No. 515, 100th Cong., 2d Sess. 40 (1988). In addition, the Lanham Act was amended to adopt the view expressed by a majority of federal courts that all of the remedies available for infringement of registered marks also are available for infringement of unregistered marks. TLRA, Pub. L. No. 100-667, §§ 127-30, 102 Stat. 3935, 3943-45 (1988); 133 Cong. Rec. S16547 (daily ed. Nov. 19, 1987) (statement of Sen. DeConcini).

The membership of USTA represents a very significant and important segment of the United States business community, and USTA has substantial expertise in trademark law. It has selectively participated as an amicus curiae in cases involving vital trademark issues.² USTA members frequently are plaintiffs and defendants in federal and state court trademark litigation, and therefore are interested in the development of clear and consistent principles of trademark and unfair competition law.

USTA has a particular interest in this case for three reasons. First, it is concerned that Section 43(a) of the Lanham

² USTA has filed briefs in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988); *Ralston Purina Co. v. On-Cor Frozen Foods, Inc.*, 746 F.2d 801 (Fed. Cir. 1984); *Anti-Monopoly, Inc. v. General Mills Fun Group, Inc.*, 684 F.2d 1316 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983); *In re Borden, Inc.*, 92 F.T.C. 669 (1978), *aff'd*, *Borden, Inc. v. Fed. Trade Comm'n*, 674 F.2d 498 (6th Cir. 1982), *vacated and remanded*, 461 U.S. 940 (1983); *Redd v. Shell Oil Co.*, 524 F.2d 1054 (10th Cir. 1975), *cert. denied*, 425 U.S. 912 (1976); *Andrew J. McPartland, Inc. v. Montgomery Ward & Co.*, 164 F.2d 603 (C.C.P.A. 1947), *cert. denied*, 333 U.S. 875 (1948); *Century 21 Real Estate Corp. v. Nevada Real Estate Advisory Comm'n*, 448 F. Supp. 1237 (D. Nev. 1978), *aff'd*, 440 U.S. 941 (1979).

Act, as recently amended by the TLRA, continue to be applied in a manner consistent with traditional principles of trademark law. This provision is the means by which the vast majority of trade dress disputes are litigated in the federal courts, and its uniform development and evolution was one of the goals of enacting the TLRA.

Second, there is a split between the approach used by the Court of Appeals for the Second Circuit and other Circuit Courts on the protectability of inherently distinctive trade dress. The approach in the Second Circuit appears to require, even for trade dress that is inherently distinctive and indicative of the source of goods or services, additional proof of secondary meaning. As explained below, such a requirement is superfluous. Now, this Court can resolve the conflict between the Circuits on this issue.

Third, the question for which certiorari was granted provides the Court with an opportunity to clarify the principles that underlie both the protection to be afforded companies for the substantial investments often made in their trade dress, including trade dress which is inherently distinctive, and the rights of competitors to enter a market by adopting for their own use popular elements in the public domain.

SUMMARY OF THE ARGUMENT

Trade dress, as is the case with any word, symbol or other designation, is eligible for protection if it distinguishes goods or services of one competitor from those offered by others. The appropriate inquiry in every instance is whether the trade dress communicates an identifying and distinguishing message that enables purchasers to associate the goods or services at issue with a particular source. If the answer to that inquiry is "yes," the trade dress is protectable. Although more cases have addressed the concept of distinctiveness in the context of trademarks than trade dress, the basic principle—that there is a spectrum of distinctiveness which carries with it varying degrees of protection—applies clearly in both instances.

At one end of the spectrum are words and symbols that are generic, in the sense that there is no alternative way to produce and sell competitive goods and services without using exactly the same word or symbol that the initial user has tried to appropriate for itself. If such exclusive appropriation renders others unable to communicate or compete, no trademark protection is available.

In the middle are trademarks and trade dress that are descriptive because they carry, at the time of adoption and use, a primary meaning that will be understood in its ordinary lexicographic sense to communicate something about the nature of the goods or services. Such trademarks and trade dress function as indications of source only after they acquire a distinctive, secondary meaning identifying their source. Prior to the acquisition of secondary meaning, they are not entitled to protection because they serve no trademark function.

At the other end of the spectrum are trademarks and trade dress deemed "inherently distinctive" because their source-identifying function is readily apparent from the outset. As a result, they are entitled to protection upon adoption. When dealing with such trademarks or trade dress, it is superfluous to require proof that these symbols have acquired a "secondary meaning," because their primary meaning is to communicate a source-identifying message. The Court of Appeals for the Fifth Circuit therefore correctly stated, as a general proposition, that inherently distinctive trade dress can be protected without requiring proof of secondary meaning.

It appears from the decision below, however, that the jury may have characterized Taco Cabana's Mexican restaurant decor as inherently distinctive without considering all of the factors relevant to that decision. It is not enough simply to conclude, as the Circuit Court put it, that trade dress is protectable if "alternative combinations" of the functional design elements comprising the trade dress could have been used "to compete effectively." 932 F.2d at 1119. To the contrary, prior decisions, as set forth in the Restatement (Third) of Unfair Competition (Tent. Draft No. 2, 1990) (approved

by Membership of the American Law Institute, May 1990) (the "Restatement"), make clear that questions as to (a) whether Taco Cabana's designs were truly unique or unusual, (b) whether they were a mere refinement of other commonly-adopted and well-known styles or (c) whether they created a commercial impression apart from a description of the cuisine, also needed to be assessed.

USTA has not had access to the record, and is unable to form a view on how those questions properly are answered in this case. It files this brief to emphasize the policies and principles that underlie these inquiries, because of their importance both to the ability of sellers to communicate accurate and useful information to consumers and to the ability of competitors to have access to product features and other indicia necessary for effective competition.

ARGUMENT

I. Trademarks And Trade Dress Perform Identical Competitive Functions.

Trademarks and trade dress both may serve as identifying "symbols," the "commercial magnetism" of which may be entitled to protection. *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942). Trademarks and trade dress

are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. [They] encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect [such symbols], therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.

S. Rep. No. 1333, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S.C.C.A.N. 1274, 1275 (discussing the competitive

rationale for trademarks in connection with enactment of Lanham Act).

When such identifying symbols are registered under the Lanham Act, the provisions of 15 U.S.C. §§ 1114-15 govern infringement actions. See *Thompson Medical Co. v. Pfizer Inc.*, 753 F.2d 208, 212 n.5 (2d Cir. 1985). When unregistered symbols are at issue, the principles of unfair competition that have evolved under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), govern. *Id.* at 212. In either case, the circumstances under which the owner of a trademark or trade dress may prevent "poach[ing]" on its claimed "symbol," *Mishawaka Rubber*, 316 U.S. at 205, are the same. It is helpful, therefore, to examine well-settled principles with respect to trademark protection. See generally *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604, 608 (7th Cir. 1986) (trade dress cases and trademark cases to be analyzed consistently because, *inter alia*, there is "no substantive legal difference between these terms").

II. The Scope Of Trademark Protection Is Limited By The Right Of Other Competitors To Communicate Accurate Information About Their Own Goods Or Services.

Efficient and fair competition requires accurate communication (and the avoidance of *miscommunication*). Words and symbols used to communicate information with respect to products fall broadly into five categories: (i) generic; (ii) descriptive; (iii) suggestive; (iv) arbitrary; and (v) fanciful. See *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976). The distinctions between the latter three categories are not at issue in this case. Because trademarks and trade dress which fall into these three categories are all deemed inherently distinctive, they are treated as one in this brief. See generally Jerome Gilson, *Trademark Protection and Practice* § 2.01 at 2-13 (1991); J. Thomas McCarthy, *Trademarks and Unfair Competition* § 11:2 at 435 (2d ed. 1984).

A. There Is No Protection For Words That Are Generic.

Words with a primarily generic meaning cannot be monopolized by one competitor because they are essential to effective communication by others. *See Bayer Co. v. United Drug Co.*, 272 F. 505, 514 (S.D.N.Y. 1921) (a plaintiff cannot "deprive the defendant, and the trade in general, of the right to dispose of [a product] by the only description which will be understood"). *See also Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. 111, 119 (1938). Because generic terms delineate a category of goods, they do not serve to differentiate and identify the particular goods of one producer; they do not communicate any message as to source. *See Bayer*, 272 F. at 513 ("when . . . a mark does not give even an intimation of the owner, there is no room at all for any protection"). *See also Park 'N Fly, Inc. v. Dollar Park and Fly, Inc.*, 469 U.S. 189, 194 (1985). In short, generic marks simply do not, and never can, perform trademark functions.

B. There May Be Protection For Words That Are Descriptive.

Similarly, words that primarily describe something about goods or services do not differentiate between the sources of those goods and services. Accordingly, when such words are used in their descriptive sense, they cannot be appropriated by a single competitor. To hold otherwise would impede communication needlessly. *See Estate of P.D. Beckwith, Inc. v. Comm'r of Patents*, 252 U.S. 538, 543-44 (1920); 15 U.S.C. § 1115(b)(4) (recognizing as defense to claim of infringement the use "of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods or services" of a party).

If, however, a descriptive term has acquired a *second* meaning, identifying a single source (*i.e.*, if it has acquired distinctiveness), the use of that term in this distinctive, trademark sense by a competitor may cause confusion in the marketplace. *See Coca Cola Co. v. Koke Co. of America*, 254 U.S. 143, 146 (1920); 15 U.S.C. § 1052 (permitting federal trademark registration of "merely descriptive" terms which

have acquired secondary meaning). To permit such *miscommunication* would allow a competitor to "poach" on the "commercial magnetism" of another.

C. There Is Protection For Words That Are Suggestive, Arbitrary Or Fanciful Because They Are Inherently Distinctive.

A different level of protection is accorded for words that are primarily suggestive, arbitrary or fanciful. From the moment of first use, such symbols *can* be protected because they are *not* necessary for others to communicate in the marketplace. Others freely may rely upon generic and descriptive terms in order to provide useful information to purchasers. They are also free to adopt their own unique and inherently distinctive symbols: the number of suggestive, arbitrary and fanciful terms is limited only by human imagination. *See Stork Restaurant v. Sahati*, 166 F.2d 348, 361 (9th Cir. 1948).

This greater level of protection for distinctive symbols is consistent with one of the principal rationales for trademark protection: "to reduce the cost of information to consumers by making it easy for them to identify the products or producers with which they have had either good experiences, so that they want to keep buying the product . . . , or bad experiences, so that they want to avoid the product or the producer in the future." *W.T. Rogers Co., Inc. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985).³ Allowing someone else in the market place to use the same, or similar, inherently distinctive terms as have been previously adopted would not only increase the likelihood of confusion among potential purchasers, it also would discourage businesses from investing in, and bringing to market, a variety of goods and ser-

³ "By identifying the source of the goods, [trademarks] convey valuable information to consumers at lower costs. Easily identified trademarks reduce the costs consumers incur in searching for what they desire, and the lower the costs of search the more competitive the market." *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429-30 (7th Cir. 1985), *cert. denied*, 475 U.S. 1147 (1986).

vices about which they might not effectively be able to communicate.

III. When Trade Dress Performs The Same Identifying Function As A Trademark, It Is Entitled To Protection Under The Same Principles.

Trade dress is the term used to describe the general appearance of goods or services offered for sale in the marketplace. Restatement § 16 cmt. a. It is well-established that the physical appearance, or manner in which goods or services are presented, may serve as designations that identify source. In those cases, trade dress performs a trademark function. Although trade dress traditionally has referred to product packaging, it also describes a variety of architectural features such as unique building designs, store fronts and restaurant decors. *See Gilson, supra*, § 7.02(7)(h).

Just as is true of trademarks, trade dress has its own spectrum of distinctiveness. The trade dress categories analogous to those used in trademark cases are described below.

A. There Is No Protection For Trade Dress That Is Functional Or Generic.

Trade dress is functional "if it is essential to the use or purpose of the article [in connection with which it is used] or if it affects the cost or quality of the article." *Inwood Lab., Inc. v. Ives Lab., Inc.*, 456 U.S. 844, 850 n.10 (1982). Such trade dress is equivalent to a generic term and cannot be appropriated by one competitor because it is essential to communication and to competition.⁴ By definition, such trade dress cannot serve to distinguish goods or services as originating from any one source. As Justice Brandeis observed in *Kellogg Co. v. Nat'l Biscuit Co.*, 305 U.S. at 120:

When an article may be manufactured by all, a particular manufacturer can no more assert exclusive rights in a

⁴ Trade dress which performs in this way is sometimes referred to as *de jure* functional. *De jure* functionality "means that the product is in its particular shape because it works better in this shape." *In re R.M. Smith, Inc.*, 734 F.2d 1482 (Fed. Cir. 1984).

form in which the public has become accustomed to see the article and which, in the minds of the public, is primarily associated with the article rather than a particular producer, than it can in the case of a name with similar connections in the public mind.

See also Restatement § 16 cmt. d, illus. 6.

The concept of functionality and genericism was the basis for the Court of Appeals for the Eighth Circuit's decision in *Prufrock Ltd. v. Lasater*, 781 F.2d 129, 134 (8th Cir. 1986), a restaurant trade dress case. The evidence established that the "sole reason" for the use of "various appointments and decor items" was to enhance a "down home country look." As the Eighth Circuit held:

The consumer demand for the concept of "down home country cooking" includes the demand for the trade dress that creates the concept. Dixie Management and others would be severely handicapped in their ability to compete with Prufrock in the field of country cooking if they were prohibited from using any or all of Prufrock's trade dress.

* * *

If a trade dress that creates a chosen theme or concept could be protected, then others who wished to use the same concept would be severely limited in their ability to do so.

Id.

B. There May Be Protection For Trade Dress That Is Descriptive.

Trade dress also may be descriptive. For example, although not essential to competition in the sense that there is "need to copy" it in order to "compete effectively," *In re R.M. Smith, Inc.*, 734 F.2d 1482, 1484 (Fed. Cir. 1984) (citing *In re Morton-Norwich Prods., Inc.*, 671 F.2d 1332, 1339 (C.C.P.A. 1982)), trade dress may communicate information about a product by enhancing, incorporating or reinforcing product attributes. If it does so, it is equivalent to a descrip-

tive term, and cannot be protected without a showing of secondary meaning. When, however, a trade dress combination, including elements that have a commonly understood function or descriptive connotation, has acquired secondary meaning, it can serve as an indication of source. Protection against competitive use is required if marketplace confusion is to be avoided. See *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1218 (8th Cir.), cert. denied, 429 U.S. 861 (1976).

For example, imagine that a manufacturer of reconstituted lemon juice is the first to package its product in a yellow, lemon-shaped container. That container clearly describes something (nearly everything) about the nature of the product. If, however, after extensive advertising and promotion, purchasers become conditioned to associate that container, not with its sour contents, but with that particular producer of lemon juice, the manufacturer would be permitted to exclude others from adopting similar containers. See *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 426 (5th Cir. 1984).

In *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987), the plaintiff sought to protect an overall impression for a restaurant created, *inter alia*, by "such items as directors chairs, white tile, and an open bakery." 826 F.2d at 842 n.7. As noted in another Fuddruckers decision, *Fred-die Fuddruckers, Inc. v. Ridgeline, Inc.*, 589 F. Supp. 72, 75 (N.D. Tex. 1984), *aff'd*, 783 F.2d 1062 (5th Cir. 1986), "the use of white tiles [and] open food preparation areas . . . is to produce an ambience of freshness and unadulteratedness and to permit customers to see the quality of the ingredients used in the food served." In this way, the design performed a descriptive, communicative function, and was not "arbitrary or uncommon" so as to qualify for protection as "inherently distinctive." 826 F.2d at 844.

The Court of Appeals for the Ninth Circuit recognized, therefore, that Fuddruckers' trade dress could be protected only after a demonstration of secondary meaning, *i.e.*, that the trade dress had acquired distinctiveness. Only after such a

showing would plaintiff be entitled to "prevent competition from using the items in a way that, viewed as a whole, [was] likely to confuse consumers." 826 F.2d at 842 n.7.

C. There Is Protection For Trade Dress That Is Suggestive, Arbitrary Or Fanciful Because It Is Inherently Distinctive.

Trade dress which is "inherently distinctive" (*i.e.*, which is suggestive, arbitrary or fanciful) instantly may be appropriated by a single competitor, without more, because it is inherently capable of distinguishing goods and it is not necessary for competition or communication.⁵ The diversity of suggestive and arbitrary trade dress, again, is limited only by human imagination, and permitting its use by competitors would increase the likelihood of confusion. See *Chevron Chem. Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 703 (5th Cir. 1981), cert. denied, 457 U.S. 1126 (1982).

Trade dress which, *ab initio*, is capable of distinguishing source (*e.g.*, the golden arches of McDonald's) does not hinder competitors in selling their own goods. Such trade dress is properly treated as inherently distinctive. See *White Tower Sys., Inc. v. White Castle Sys. of Eating Houses Corp.*, 90 F.2d 67 (6th Cir.), cert. denied, 302 U.S. 720 (1937); *Fotomat Corp. v. Cochran*, 437 F. Supp. 1231, 1235 (D. Kan. 1977). Indeed, with respect to a chain of restaurants, a visibly unique and consistently presented trade dress might operate even more efficiently than a word mark in identifying and distinguishing one source of food services from another, and in reducing consumer search costs.

⁵ The protectability of inherently distinctive trade dress, without more, is not impaired because it is incorporated in a utilitarian object, *e.g.*, the protectability of a uniquely designed bottle is not impaired because the bottle is *de facto* functional in the sense of holding liquid. See *Ex parte Haig & Haig Ltd.*, 118 U.S.P.Q. (BNA) 229 (Comm'r Patents 1958).

IV. The Differences Between The Scope Of Protection For Inherently Distinctive Trade Dress And Generic Or Descriptive Trade Dress Reflect The Same Important Policies Underlying Trademark Protection.

Just as is the case with trademarks, the freedom to imitate pre-existing trade dress is limited only when the copying is likely to cause confusion among prospective purchasers as to the source of the goods or services at issue. Restatement § 16 cmt. b. The Restatement and the case law expressly recognize that the general rules applicable to trademarks apply with equal force to trade dress. For example:

Rigorous application of the requirements of distinctiveness and nonfunctionality is essential in order to avoid undermining the carefully circumscribed statutory regimes . . . [of] federal patent and copyright law. . . . If the trade dress is descriptive, or inconspicuous, or not sufficiently different from that used by others to justify a conclusion of inherent distinctiveness, trademark rights depend upon proof of distinctiveness through evidence of secondary meaning.

Restatement § 16 cmt. b.

As is true of trademarks, the line between trade dress that is descriptive and trade dress that is suggestive or arbitrary (and therefore inherently distinctive) is not always bright. See, e.g., *HQ Network Sys. v. Executive Headquarters*, 755 F. Supp. 1110, 1119-23 (D. Mass. 1991). As noted in *AmBrit, Inc. v. Kraft, Inc.*, 812 F.2d 1531, 1537 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987), "[o]nce conceived as distinct categories, these rubrics are now commonly viewed as 'central tones in a spectrum.' "

The Restatement counsels that the descriptive/suggestive line often turns on "the degree of imagination required to extract from the designation information concerning the nature, qualities, or other characteristics of the product or business." Restatement § 14 cmt. b. As Judge Weinfeld explained in an often-cited opinion:

A term is suggestive if it requires imagination, thought and perception to reach a conclusion as to the nature of goods. A term is descriptive if it forthwith conveys an immediate idea of the ingredients, qualities or characteristics of the goods.

Stix Products, Inc. v. United Merchants & Mfrs., Inc., 295 F. Supp. 479, 488 (S.D.N.Y. 1968).

The following standard, adopted by many courts, highlights relevant factors necessary to draw the distinction between descriptive and suggestive trade dress: "whether [a claimed trade dress is] a 'common' basic shape or design, whether it [is] unique or unusual in a particular field [or] whether it [is] a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods." *Seabrook Foods, Inc. v. Bar-Well Foods Ltd.*, 568 F.2d 1342, 1344 (C.C.P.A. 1977). See also *Brooks Shoe Mfg. Co. v. Suave Shoe Corp.*, 716 F.2d 854, 857-58 (11th Cir. 1983).⁶

The policy that underlies the concern about properly drawing the descriptive/suggestive distinction is succinctly explained in the Restatement as follows:

A designation consisting of a word whose lexicographic meaning has no apparent application to the particular product or business with which it is used, such as SHELL used on petroleum products, is . . . inherently distinctive. Prospective purchasers are likely to perceive such an "arbitrary" designation as a symbol of identification. There is also no reason to anticipate that restrictions on the use of such arbitrary designations will hinder communication by other competitors.

The likely reaction of prospective purchasers and the potential impact on competitors are less certain when the

⁶ As explained in the Restatement § 13 cmt. b:

If the recognition of trademark rights in a particular designation is likely to diminish the ability of others to communicate information about their own goods or services . . . , or is otherwise likely to undermine a legitimate interest in unrestricted access, the designation ordinarily will not be considered inherently distinctive.

ordinary lexicographic meaning of the designation is relevant to the specific goods, services, or business to which it is applied. If the ordinary meaning of the word only indirectly or tangentially applies to the product or business, consumers remain likely to place primary emphasis on its identifying rather than its lexicographic significance. Restrictions on the use of terms that are only marginally related to the goods, service, or business are also unlikely to interfere with the ability of others to convey information about competing products. Thus, words that are merely suggestive of the nature or characteristics of the product or business are also considered inherently distinctive and eligible for protection without additional proof of distinctiveness.

As the designation becomes more clearly descriptive of the goods, service, or business, however, it is more likely to be perceived in its ordinary lexicographic sense rather than as a symbol of identification. Recognition of trademark rights in such descriptive terms also presents a more serious threat to the legitimate interests of competitors in accurately and prominently describing their own products or business. Thus, if the designation is not merely suggestive but actually describes the nature or characteristics of the product or business, trademark rights depend upon a showing of actual distinctiveness . . .

Restatement § 13 cmt. c. See also Gilson, *supra*, § 2.09 at 2-111 to -112.

A trio of restaurant design cases illustrates the nature of the inquiry to be made when drawing the very important distinction between inherently distinctive and descriptive or generic trade dress. For example, in *T.G.I. Friday's, Inc. v. Int'l Restaurant Group*, 569 F.2d 895, 899 (5th Cir. 1978), the Court denied relief, *inter alia*, because plaintiff's "'turn of the century' theme was not exclusive . . . and in fact is used in hundreds of different restaurants throughout the United States." Not being unusual, the decor was not protectable.

In *Warehouse Restaurant v. Custom House Restaurant*, 217 U.S.P.Q. (BNA) 411, 419 (N.D. Cal. 1982), the Court rejected claims as to decorative items "presently used in other restaurants of the general Polynesian theme." Based on the evidence presented, however, the Court was able to conclude that plaintiff's "dining booths encased in packing crates" were distinctive, and protected those elements of the decor against a confusingly similar imitation.

In *House of Hunan, Inc. v. Hunan at Pavilion*, 227 U.S.P.Q. (BNA) 803, 805-06 (D.D.C. 1985), the Court assessed the protectability of two carved white marble lions flanking the restaurant's entrance. It ruled that "the use of similar symbols by other Chinese restaurants demonstrates that plaintiff's lions are not so fanciful or arbitrary that they deserved legal protection immediately upon their adoption," but concluded that "plaintiff's . . . carefully directed advertising efforts demonstrate a substantial likelihood that plaintiff has endowed its lions with a secondary meaning among the relevant class of consumers."

The foregoing principles and cases make clear that, although certain types of trade dress may be inherently distinctive and protectable without a demonstration of secondary meaning, a careful inquiry along the lines set forth in *Seabrook Foods* is required before reaching that conclusion. See also Restatement § 13 cmt. b. If trade dress is not perceived primarily to connote a particular source, but instead carries a descriptive message, protection is available only if secondary meaning is proven.

Thus, the appropriate inquiry below was whether Taco Cabana's trade dress was so unique and different from other restaurant designs that it could be deemed inherently distinctive. As described in the Fifth Circuit's opinion, however, that trade dress appeared to create a "Mexican" atmosphere, capable of leading consumers, without any exercise of their imagination, to expect Mexican cuisine. At the very least, the Circuit Court opinion creates the apparently incongruous result that trade dress which is inherently *compatible* with a

restaurant theme is nonetheless deemed inherently *distinctive* as to the restaurant itself.

CONCLUSION

Trademark and trade dress cases should be resolved in a manner consistent with the rationale for their protection. In each instance, the touchstone of protection is the communication of a distinguishing, source-identifying message. Words or symbols that do not indicate specific sources of origin, because they are generic, functional or descriptive, are the property of all. On the other hand, words or symbols that either are inherently distinctive or, through the acquisition of a secondary meaning, serve specifically to communicate the source of goods or services, must be protected as identifying the goods or services as emanating from a single source. Therefore, when inherently distinctive symbols are involved, proof of secondary meaning is simply unnecessary.

Respectfully submitted,

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

—v.—

TACO CABANA INTERNATIONAL, INC.,
and TACO CABANA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FIFTH CIRCUIT

**BRIEF OF PRIVATE LABEL MANUFACTURERS
ASSOCIATION AS AMICUS CURIAE IN SUPPORT
OF REVERSAL OF THE DECISION BELOW**

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March 12, 1992

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QUESTION PRESENTED

Whether product designs and packaging—trade dress—are protectable under Section 43(a) of the Lanham Act without a showing of secondary meaning merely because such trade dress is “inherently distinctive?”

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IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

No. 91-971

TWO PESOS, INC.,

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—v.—

TACO CABANA INTERNATIONAL, INC.,
and TACO CABANA, INC.,

Respondents.

ON WRIT OF CERTIORARI TO THE UNITED STATES
COURT OF APPEALS FOR THE FIFTH CIRCUIT

**BRIEF OF PRIVATE LABEL MANUFACTURERS
ASSOCIATION AS AMICUS CURIAE IN SUPPORT
OF REVERSAL OF THE DECISION BELOW**

Pursuant to Rule 37 of the Supreme Court Rules, Private Label Manufacturers Association ("PLMA"), with the consent of the parties, submits this brief as *amicus curiae* in support of reversal of the decision below.¹

¹ The written consents of all parties to the filing of this *amicus* brief have been filed with the Clerk of the Court in compliance with Rule 37.3 of the Supreme Court Rules.

INTEREST OF AMICUS CURIAE

PLMA is a non-profit trade organization which represents more than 1,200 companies involved in the manufacture and distribution of store brands—products that are sold under the retailer's or wholesaler's brand name in supermarkets, drug chains and mass merchandisers throughout the United States. These products include food, beverages, snacks, health & beauty aids, over-the-counter drugs, household cleaners and chemicals, outdoor and leisure products, auto aftercare and general merchandise.

"Private label" or "store brand" products account for nearly 20% of supermarket sales volume and 25% of sales at major drug chains. For the consumer, private label provides the opportunity to regularly purchase quality food and non-food products at substantial savings and serves as a competitive alternative to national brands. By purchasing private label brands, consumers save 26% on a typical trip to the supermarket and 38% on a typical visit to a major drug chain.²

Although the dispute in this case arises in the context of two restaurants employing a southwestern or Mexican motif, the legal issue before this Court, *i.e.*, the continued viability of "secondary meaning" as a requisite legal element of protectable trade dress, has significant legal and economic ramifications which go far beyond the narrow interests of the parties. PLMA has a direct and substantial interest in the preservation of open, competitive markets in which manufacturers may sell high-quality goods to consumers at reasonable prices. PLMA's *amicus* submission is intended to bring such considerations to the attention of this Court and to demonstrate the importance of secondary meaning in trade dress lit-

² *Industrial Design Protection: Hearings Before the House Subcommittee on Courts, Intellectual Property, and the Administration of Justice of the Committee on the Judiciary*. 101st Cong., 2d Sess., p. 528 (1990) (Statement of Brian Sharoff, President, Private Label Manufacturers Association) (hereafter, *Hearings*).

igation and the substantial adverse consequences flowing from its elimination.

Since the vast majority of private label purchases are on-the-spot decisions, consumers often rely on the appearance, shape and size of the product, as well as the design of the packaging—the so-called "trade dress" of the item—to identify the category, type or nature of the store brand product. Manufacturers and others in the distribution chain assume the burden of such consumer education, while at the same time being vigilant to avoid confusion as to source of manufacture or designation of origin.

SUMMARY OF ARGUMENT

PLMA submits this *amicus* brief in support of reversal of the Fifth Circuit Court of Appeals decision to the extent that it would eliminate "secondary meaning" as a required element of protectable trade dress. The federal law of unfair competition, which Section 43(a) of the Lanham Act has codified, has its roots in the tort of deceit. The law is intended to protect consumers from confusion as to the source or origin of the product by requiring an association between the appearance of the product and the producer's identity, reputation and goodwill.

Secondary meaning traditionally has been the touchstone of trade dress infringement cases. Where dealing with statutorily unprotected designs or shapes, and where there is no issue of "palming off," the appropriate legal standard is avoidance of confusion of the source or origin of the product not mere similarity of appearance.

It is essential that the courts recognize and protect the public interest by preserving the balance between free and fair competition in the marketplace and the limited and carefully circumscribed monopolies inherent in the statutory protections provided by the patent, trademark and copyright laws. The temptation to judicially expand these statutory monopolies under the guise of "trade dress" to a myriad of statutorily unprotected shapes, forms, sizes and appearances of

commonplace products must be carefully scrutinized and avoided.

The Fifth Circuit holding would bestow an unwarranted monopoly on producers, unlimited in time, scope and geographic area, based solely upon evidence produced in a single case that the appearance of the subject product is "inherently distinctive." The Fifth Circuit's decision, unless reversed, will permit a manufacturer to use unregistered product designs and packaging as a sword to limit competition under federal law without first establishing that such design or appearance has acquired an association in the consumer's mind with the product's source. PLMA submits that such a radical extension of trade dress protection will inure to the detriment of private label manufacturers, distributors and their employees and to consumers, as well, by limiting the range of product and packaging design necessary for private label manufacturers to compete effectively with higher-priced "brand name" goods.

The anti-competitive effect of the Fifth Circuit decision, the current economic climate of the United States,³ and prior

³ The civilian unemployment rate in February, 1992 was 7.3%. 46 Daily Lab. Rep., p. B-1 (BNA) Mar. 9, 1992. This is the highest level of unemployment since July, 1990. More than 300,000 jobs have been lost in the United States since October, 1991. 27 Daily Lab. Rep., p. B-1 (BNA) Feb. 10, 1992. Although the Fifth Circuit's decision would be of concern to private label manufacturers in all economies, the opinion is particularly detrimental to manufacturers and consumers in the present recessionary environment because consumers turn to less expensive private label goods as a means of lowering their costs. See e.g., Scott Hume, *Recession Fears Fuel Coupon Use*, ADVERTISING AGE, Feb. 18, 1991 at 12 (half of shoppers surveyed said they have increased their purchase of private label and store brand products because of recession); Dan Wascoe, Jr., *Brand Disloyalty, Shoppers Cut Ties To Certain Products As They Put Higher Priority On Prices*, MINNEAPOLIS STAR TRIBUNE, Dec. 5, 1991 at 10 ("[F]or many shoppers, tough times have meant putting higher priority on prices than on brands."); Bob Gatty, *The Recession: Lessons and Opportunities*, GROCERY MARKETING, May 24, 1991 at 1 ("To cope with more difficult economic times . . . consumers are stocking up on specials, buying more private label brands, and making more impulse purchases when they find bargains."); Paul Farhi, *Flash And Glamour In Ads Give Way To Hard-Sell On Quality And Value*, L.A. TIMES, Dec. 27, 1990 at 13, (sales of cheaper generic goods historically rise as economy tightens).

decisions of this Court all underscore the need to affirm the continued vitality of secondary meaning in the area of trade dress and to leave the marketplace open to products which, without creating confusion between one product source and another, have a similar pleasing and/or educative design or dress and are lower in cost to the American consumer.

Finally, because trade dress and trademarks are not always the same, and because competitors can look to no public register of trade dress for potential conflicts, they are put to the impossible burden under the Fifth Circuit's decision to determine *in advance* whether a product's design or packaging in the marketplace is "inherently distinctive." It is the better policy, and the one consistent with Congressional intent, to limit trade dress protection to dress which is possessed of secondary meaning.

ARGUMENT

POINT I

SECONDARY MEANING IS THE FOUNDATION OF SECTION 43(a) TRADE DRESS ANALYSIS

The tort of unfair competition has been codified in the federal law by Section 43(a) of the Lanham Act, as amended, 15 U.S.C.A. § 1125(a) (1982 & Supp. 1991).⁴ By enacting Sec-

⁴ Section 43(a), as amended, provides in relevant part:

(a) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, false or misleading representation of fact, which—

(1) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

tion 43(a), which, in the words of this Court, "creates a federal remedy for making 'a false designation of origin or any false description or representation, including words or other symbols tending falsely to describe or represent the same[.] . . .'" Congress has thus given federal recognition to many of the concerns which underlie the state tort of unfair competition." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 166 (1989). "[T]he common-law tort of unfair competition has been limited to protection against copying of nonfunctional aspects of consumer products which have acquired secondary meaning *such as they operate as a designation of source.*" *Id.* at 158 (emphasis added); *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851, n.11 (1982); see also *Armstrong Paint & Varnish Works v. Nu-Enamel Corp.*, 305 U.S. 315, 336 (1938), *reh'g denied*, 305 U.S. 675 (1939); *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111, 122, *reh'g denied*, 305 U.S. 674 (1938); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, *reh'g denied*, 376 U.S. 973 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, *reh'g denied*, 377 U.S. 913 (1964).⁵ Thus,

(2) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities,

shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act. 15 U.S.C. § 1125(a).

⁵ The circuit courts and commentators are in accord. *Coach Leatherware Co., Inc. v. AnnTaylor, Inc.*, 933 F.2d 162, 168 (2d Cir. 1991) ("secondary meaning—the consuming public immediately identifies the product with its maker"); *Application of Mogen David Wine Corp.*, 328 F.2d 925, 932 (C.C.P.A. 1964) ("design of the decanter bottle, when associated in the purchasing public's mind with appellant's wines, may have acquired the attributes of a registrable trademark"); *Sicilia Di R. Biebow & Co. v. Cox*, 732 F.2d 417, 425, n.4 (5th Cir. 1984) (prime element of secondary meaning "is a mental association in buyers' minds between the alleged mark and a single source of the product.") (emphasis in original) (quoting 1 J. MCCARTHY, *TRADEMARKS & UNFAIR COMPETITION* § 15.2 at 659 (2d ed. 1984)); *Esercizio v. Roberts*, 944 F.2d 1235, *reh'g denied*, 1991 U.S. App. LEXIS 31362 (6th Cir. 1991) ("similarity of products alone is not actionable; there must also be confusion as to the origin of the product") (citing *West Point Mfg. Co. v.*

"[t]he law of unfair competition has its roots in the common-law tort of deceit; its general concern is protecting consumers from confusion as to source." *Bonito Boats*, 489 U.S. at 157 (emphasis added).⁶

"[I]t is difficult to see how the public can be deceived without at least associating the product with a particular origin." *Developments in the Law—Competitive Torts*, 77

Detroit Stamping Co., 222 F.2d 581, 589 (6th Cir.), *cert. denied*, 350 U.S. 840 (1955)); *A.J. Canfield Co. v. Vess Beverages, Inc.*, 796 F.2d 903, 907 (7th Cir. 1986), *vacated on other grounds*, 859 F.2d 36 (7th Cir. 1988) ("A term acquires secondary meaning when the consumer associates it with the producer rather than the product."); *Truck Equipment Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1219 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976) ("[A] name, mark, or symbol . . . may become so associated in the public mind with such goods . . . that it serves to identify them and distinguish them from the goods.") (quoting *Shoppers Fair of Ark., Inc. v. Sanders Co.*, 328 F.2d 496, 499 (8th Cir. 1964)); *Fuddrucker, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 843 (9th Cir. 1987) ("The trade dress of a product or service attains secondary meaning when the purchasing public associates the dress with a particular source."); *Ambrit, Inc. v. Kraft, Inc.*, 805 F.2d 974, 979, n.14 (11th Cir. 1986), *cert. denied*, 481 U.S. 1041 (1987) ("Secondary meaning is the connection in the consumer's mind between the mark and the product's producer, whether that producer is known or unknown."); *Developments In The Law—Competitive Torts*, 77 HARV. L. REV. 888, 911 (1964) (secondary meaning "requires a showing that consumers associate the term or symbol with a particular manufacturer or source."); R. Brown, *Design Protection: An Overview*, 34 U.C.L.A. L. REV. 1341, 1374 (1987) ("Source identification is still the bedrock of unfair competition."); 3 CALLMAN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES* § 19.25, p. 125 (4th ed. 1983) (plaintiff claiming secondary meaning "must show that the primary significance of the term in the minds of the consuming public is not the product but the producer."); 1 J. MCCARTHY, *TRADEMARKS & UNFAIR COMPETITION* § 8:2, p. 285 (2d ed. 1984) ("[P]laintiff must prove that the public has come to associate the total 'image' of plaintiff's package with one source.").

⁶ Section 43(a) has also been "interpreted to entitle the first manufacturer of a product to an unregistered trademark in the 'trade dress' of its product." *Stormy Clime Ltd. v. Progroup, Inc.*, 809 F.2d 971, 974 (2d Cir. 1987). Trade dress may involve "the total image of a product and may include features such as size, shape, color or color combinations, texture [or] graphics." *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 980 (11th Cir. 1983).

Harv. L. Rev. 888, 915 (1964) (hereafter *Developments*). To accomplish its acknowledged legal end—protecting consumers from confusion as to source—secondary meaning has long been required in trade dress cases.⁷

The Fifth Circuit below has effectively eliminated secondary meaning as an essential element of protectable trade dress if the trade dress is shown to be “inherently distinctive.” The court, without any analysis or consideration of the different functions of registered trademarks and trade dress, has thereby adopted the same standard for trade dress as would apply to the statutory registration of a trademark.

Significantly, the court below did not address the differing common law underpinnings of trade dress as distinguished from the statutory requirements of trademark registration. Registration of a trademark on the Principal Register may be made where a mark is inherently distinctive and no showing of secondary meaning is required. However, registration of a trademark on the Principal Register provides the world with notice through a public register of such marks which may be consulted to avoid use of a confusingly similar mark. By contrast, trade dress, as discussed above, is unregistered, and its use and exploitation over time results in accumulated goodwill and/or established reputation emanating from the association between appearance of the product and its source or origin. This established public association is the only notice to competitors of the proprietary nature of such trade dress. It is such “good will” or “reputation” which is protected in the appropriate trade dress case. “Distinctive” appearance is merely one element and is clearly not a substitute for secondary meaning.

One commentator aptly highlighted the error of the “inherently distinctive” standard as follows:

To say that the overall design of a useful article is “inherently distinctive” of a particular source just by

⁷ See e.g., *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299 (2d Cir. 1917) (L. Hand, C.J.) (cited with approval in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989)) and cases cited at note 5, *supra*.

examining it and perhaps dissecting it, seems to me an impermissible exercise of intuitive judging. It substitutes an impression that the design is outstanding, or eccentric, or clever, or something, for the proofs of the association with a source, gained in the marketplace, that add up to a showing of secondary meaning.⁸

Prior decisions of this Court reflect a sensitivity to the avoidance of expansion of monopoly through the use of trademarks and hence an unwillingness to protect the appearance of a product simply because it looks to be distinctive. See *Bonito Boats*, 489 U.S. at 166. Moreover, this Court has made clear that, although, under federal unfair competition law, a manufacturer has a right “to be free from the competitive use of [its] words as a trade-mark or trade name . . . [t]his right of freedom does not confer a monopoly on the use of the words. It is a mere protection against their unfair use as a trade-mark or trade name by a competitor seeking to palm off his products as those of the original user of the trade name. *This right to protection from such use belongs to the user of a mark which has acquired a secondary meaning.*” *Armstrong Paint, supra*, 305 U.S. at 335-36 (emphasis added).⁹

⁸ R. Brown, *Design Protection: An Overview*, 34 U.C.L.A. L. REV. 1341, 1380 (1987).

⁹ See also, *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 301 (2d Cir. 1917) (L. Hand, C.J.):

Thus the plaintiff has the right not to lose his customers through false representations that those are his wares which in fact are not, but he may not monopolize any design or pattern, however trifling. The defendant, on the other hand, may copy the plaintiff's goods slavishly down to the minutest detail; but he may not represent himself as the plaintiff in their sale.

POINT II

A SECONDARY MEANING STANDARD IN TRADE DRESS CASES PRESERVES THE PUBLIC POLICY OF BALANCING FREE AND OPEN COMPETITION AND THE REWARDS OF GOODWILL GAINED IN THE MARKETPLACE

It is still the law that "[a]n unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so." *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231 (1964). In *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989), this Court reaffirmed Congress' policy, reflected in the trademark, patent and copyright laws,¹⁰ to "promote invention while at the same time preserving free competition." *Sears*, 376 U.S. at 230-31; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).¹¹ The Seventh Circuit has observed that trademark monopolies must be restrained in order to preserve competition and consumer choice: "Because trademarks do not have fixed time limits like copyrights and patents, other and vaguer methods are used to cut them off at the point where their value as information about product origin is exceeded by their cost in impeding competition." *W.T. Rogers Co., Inc. v. Keene*, 778 F.2d 334, 347 (7th Cir. 1985).

¹⁰ "Indeed there are affirmative indications from Congress that both the law of unfair competition and trade secret protection are consistent with the balance struck by the patent laws . . . Congress has thus given federal recognition to many of the concerns which underlie the state tort of unfair competition and the application of *Sears* and *Compco* to non-functional aspects of a product which have been shown to identify source must take account of competing federal policies in this regard." *Bonito Boats*, 489 U.S. at 166.

¹¹ Congress intended the trademark laws to "protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not." SEN. REP. NO. 1333, 79th Cong., 2d Sess. (1946), reprinted in 1946 U.S.C.C.A.N. 1274, 1275.

It is an understatement to say, as has one authority, that the rule adopted by the Fifth Circuit "is not without some difficulty for the courts," 3 Callman, *The Law of Unfair Competition, Trademarks & Monopolies* § 19.38, p. 364 (4th ed. 1983), and other circuit courts have required a showing of secondary meaning in trade dress cases precisely because any less stringent requirement would not protect the balance sought by Congress.¹² To require a showing of secondary meaning in connection with products and package design strikes the proper competitive balance by specifically limiting the monopoly rights granted under Section 43(a) of the Lanham Act to those aspects of a product which are necessary for identification of the source of the product and leaving the balance of the product's features where they rightfully belong—in the public domain.

POINT III

THE FIFTH CIRCUIT'S DECISION WILL HAVE A DESTRUCTIVE EFFECT ON COMPETITION

By declaring that trade dress which is "neither descriptive nor functional is *ipso facto* inherently distinctive" and protectable under Section 43(a), *Taco Cabana International, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1120 (5th Cir. 1991), cert. granted in part, 117 L. Ed. 130 (1992) (hereafter, *Taco Cabana*), the Fifth Circuit and others¹³ depart radically from

¹² *Stormy Clime, supra* at 978 ("courts must be sensitive to whether a grant of trade dress protection would close all avenues to a market that is otherwise open in the absence of a valid patent"); *Esercizio v. Roberts*, 944 F.2d 1235, 1241 (6th Cir. 1991); *First Brands Corp. v. Fred Meyer Inc.*, 809 F.2d 1378, 1382 (9th Cir. 1987) (competitive need for color yellow existed for antifreeze packaging industry, and color in combination with container design had not achieved secondary meaning); *American Greetings Corp. v. Dan-Dee Imports, Inc.*, 807 F.2d 1136, 1144 (3d Cir. 1986); *Prufrock Ltd., Inc. v. Lasater*, 781 F.2d 129, 133 (8th Cir. 1986) ("If an element of the trade dress is unrelated to the consumer demand for the product and serves merely to identify the source of the product, then a prohibition against imitation will not hinder honest competition.").

¹³ *Blau Plumbing, Inc. v. S.O.S. Fix-It, Inc.*, 781 F.2d 604 (7th Cir. 1986); *Ambrit, Inc. v. Kraft, Inc.*, 806 F.2d 974 (11th Cir. 1986).

traditional trade dress analysis and grant Section 43(a) trademark protection to first-time producers of product design and packaging, which have not acquired secondary meaning, and, hence, by definition cannot be associated in the market place with a specific source or origin.

In *Taco Cabana*, the Fifth Circuit determined that, since the jury found Taco Cabana's trade dress not merely descriptive and that the dress was "arbitrary, fanciful, or suggestive," *Taco Cabana*, 932 F.2d at 1120, n.8, that *therefore*, Taco Cabana was entitled "to protection without proof of secondary meaning." *Id.*

The readily apparent effect of the Fifth Circuit's holding on competitors is to provide Section 43(a) protection for every ostensibly new shape, appearance or image of a product or its packaging, and, arguably, for every new combination of descriptive or functional elements in a dress when taken as a whole, without a need to demonstrate that the "purchasing public 'associates' its design with a single producer or source rather than simply with the product itself." *Coach Leatherware Co., Inc. v. AnnTaylor, Inc.*, 933 F.2d 162, 168 (2d Cir. 1991) (citing *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 851, n.11 (1982)). Virtually any commonplace product in the supermarket or neighborhood drug store can now be a candidate for trade dress protection under the Fifth Circuit's standard. For example, if, as in the Fifth Circuit's prior case, *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982), a combination of color and design can be deemed "inherently distinctive" and protectable under Section 43(a),¹⁴ then *all* combinations

¹⁴ The Fifth Circuit upheld a "combination of [red and yellow], arranged in certain geometric designs, presented in conjunction with a particular style of printing, in such fashion that, taken together, they create a distinctive visual impression." *Id.* at 703; compare *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378, 1383 (9th Cir. 1987) ("Even if there were no competitive need for the color yellow in the anti-freeze packaging industry, [plaintiff] would have to prove that its yellow, F-style jug had acquired a secondary meaning.").

of color and design, when introduced into the market, are protectable, without the need to show secondary meaning. This is not and should not be the law.

As the Second Circuit has correctly observed, "Since trademark protection extends for an unlimited period, expansive trade dress protection for the design of products would prevent some functional [or descriptive] products from enriching the public domain. This threat is particularly great when . . . a first manufacturer seeks broad trade dress protection for a product on the ground that its arrangement of predominantly functional [or descriptive] features is distinctive." *Stormy Clime Ltd. v. Progroup, Inc.*, 809 F.2d 971, 978 (2d Cir. 1987). Similarly, in *In re D.C. Comics, Inc.*, 689 F.2d 1042, 1050-51 (C.C.P.A. 1982), Judge Nies, in a separate concurrence, emphasized:

I have found no precedent in decisions of this court, or others, which recognizes the protectibility of any *product* design as a trademark for that *product* without proof of distinctiveness, that is, distinctiveness as an indication of *origin*, not simply that it is a distinctive design in the sense of being unusual." (emphasis in original).

"It is a first principle of trademark law that an owner may not use the mark as a means of excluding competitors from a substantial market." *Wallace Int'l Silversmiths, Inc. v. Godinger Silver Art Co., Inc.*, 916 F.2d 76, 81 (2d Cir. 1990), *cert. denied*, 111 S.Ct. 1622 (1991); *Stormy Clime Ltd. v. Progroup, Inc.*, 809 F.2d 971, 978 (2d Cir. 1987); 3 Callman, *The Law of Unfair Competition, Trademarks & Monopolies* § 19.38, p. 363 (4th ed. 1983). If the Fifth Circuit rationale were affirmed, the initial user of any shape or design could and would cut off competition from products of like design and shape through the expanded monopoly power created by Section 43(a), even though such first-use products are not innovative enough to be patentable and not so distinctive *and* well-established in the marketplace as to have acquired secondary meaning. *Hearings*, pp. 528-29. Indeed,

much of what now exists and may exist in the future in the way of product design and packaging and which is neither purely descriptive nor functional could be monopolized upon its immediate introduction into the marketplace, notwithstanding that such design or packaging had not acquired any real trademark significance.

The unwarranted expansion of protection accorded by an "inherently distinctive" test for trade dress infringement would have a devastating effect on manufacturers, distributors, retailers and the American consumer. Certainly the public domain would suffer from foreclosure of new products. In testifying before the House Subcommittee on Courts, Intellectual Property, and the Administration of Justice, PLMA President, Brian Sharoff, in opposing a proposed design copyright bill, noted:

Packaging of familiar shapes and designs will be reserved to the first user through the simple expedient of a copyright registration. For example, familiar design features, such as childproof tops and squeeze dispensers for liquid products, could be effectively monopolized. Whole lines of replacement parts for common consumer items, such as replacement heads for mops and brooms, bags for vacuum cleaners, as well as many lines of private label household appliances, could be effectively eliminated by the proposed bill.

Hearings at p. 529.¹⁵

¹⁵ Mr. Sharoff was speaking against enactment of the proposed Industrial Design Anti-Piracy Act of 1989, H.R. 3017, a bill proposed in the House of Representatives (which was not voted out of committee), intended to broaden copyright protection of the design of "any useful article" sold in commerce. *Hearings*, pp. 30-32. But his comments are even more relevant here where registration is not involved and the protection rests on an *ex post facto* determination of distinctiveness. Additionally, the use of an "inherently distinctive" standard to expand trade dress protection would grant to the first user or manufacturer a monopoly on a product's design in perpetuity, instead of a mere 10 years, as was contemplated by H.R. 3017.

POINT IV

THE FIFTH CIRCUIT DECISION CREATES AN INTOLERABLE BURDEN ON COMPETITORS

It is important to recognize that protectable trade dress carries with it no registration requirement or other public notice of ownership. There is no regulatory mechanism for an initial determination of the distinctiveness (or lack thereof) of a product's trade dress. Accordingly, absent "secondary meaning," no notice of "inherent distinctiveness" is provided. A competitive entrant into a market has no ability to ascertain whether any unregistered product design or image is or is not in the public domain and no opportunity to modify or alter his design to avoid a later claim of trade dress infringement.

While the trademark, design patent and copyright laws provide a competitor with actual or constructive notice through registration of a name or product design, *see* 15 U.S.C.A. §§ 1052 & 1053 (1963 & Supp. 1991), 35 U.S.C.A. §§ 101 & 171 (1984), ordinarily, the inherent distinctiveness of a product's trade dress is determined only *after* a competitor has invested time and money developing and marketing a competing product. "Only public reaction to one's actual use of the design can lead to protection as a trademark." *In re D.C. Comics, Inc.*, 689 F.2d 1042, 1053 (C.C.P.A. 1982) (Nies, J., specially concurring). The deficiency of the Fifth Circuit's "inherently distinctive" approach is that it essentially substitutes the subjective impressions of the appearances of the product formed by the trier of fact in a single case—be it jury or judge—for the requisite evidentiary "association" with source or origin of the product formed over time in the marketplace.

Indeed, it is precisely when the competing product is used and becomes commercially successful and accepted that a claim of trade dress infringement is most likely to emerge. The "inherently distinctive" test will impose a significant financial burden upon competitors to effect a change in prod-

uct or packaging designs introduced at a time when there was no determination or knowledge that the original products or packaging would ultimately be found to be "inherently distinctive."¹⁶ Accordingly, PLMA submits it is the better policy, and one consistent with Congressional intent, to limit trade dress protection to that dress which is not only distinctive in appearance, but is also possessed of secondary meaning. In that way, the association in the marketplace between the distinctive appearance of the product or its packaging and its source or origin serves as public notice, and competitors can avoid imitative designs. Any other designs do not warrant trade dress protection and can be adequately protected by existing patent, trademark and copyright statutes.

This policy was implicitly endorsed by the Seventh Circuit in *W.T. Rogers Co., Inc. v. Keene*, 778 F.2d 334, 348 (7th Cir. 1985). In reversing a trade dress determination of the district court of the Western District of Wisconsin, the court observed:

What Rogers may fear of course is not the loss of an identifying mark but the loss of a competitive advantage stemming from the exclusive possession of a popular design; but to protect the intellectual property that consists not of an identifying mark but of a pleasing design a manufacturer must seek the aid of the design-patent law, with its stringent requirements and its 14-year limitation, and not the aid of the trademark laws.

¹⁶ See also *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960, 965 (2d Cir. 1918) (L. Hand, C.J.) ("The question is always commercial; we ought not to impose any burdens which, either by changing the appearance of the article itself, or by imposing expense upon its production, will operate to give the plaintiff such advantage in the market as will substantially handicap his competitors.").

CONCLUSION

For all of the foregoing reasons, this Court should reverse the Fifth Circuit determination to the extent that the Court below held that trade dress protection is available without establishing secondary meaning.

Respectfully submitted,

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